ANNUAL REPORT

2019

TLG IMMOBILIEN

Office project NEO, Dresden

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REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

As in previous years, TLG IMMOBILIEN AG performed very well in the 2019 financial year and improved its key performance indicators yet again. In addition to the successful implementation of various capital measures, we were able to initiate a merger with Aroundtown SA, a leading real estate company.

A TRUSTING PARTNERSHIP WITH THE MANAGEMENT BOARD

In the 2019 financial year, the Supervisory Board fulfilled the role incumbent upon it in line with the law, Articles of Association, German Corporate Governance Code and rules of procedure with the greatest of care. It regularly advised the Management Board on the management of the company and monitored its activities.

Including outside of Supervisory Board meetings, the Management Board provided the Supervisory Board with regular, prompt and comprehensive reports on policies, strategy and planning and the position of the company, including opportunities and risks, the course of business and risk management. Any deviations between actual and planned developments were also discussed and significant transactions were coordinated closely between the Supervisory Board and the Management Board.

The Chairperson of the Supervisory Board and the other members of the Supervisory Board were also in frequent contact with the Management Board outside of the meetings of the Supervisory Board in order to discuss important matters. In particular, they discussed the strategic orientation and the development of the business of the company in detail.

The Supervisory Board was quickly and directly involved in all decisions of fundamental importance to the company and in all transactions requiring approval.

MEETINGS OF THE SUPERVISORY BOARD

Of the 24 meetings of the Supervisory Board in the 2019 financial year, eleven were meetings in person and 13 were teleconferences. The Supervisory Board discussed current business developments, important individual transactions and transactions requiring its approval. Furthermore, resolutions were passed by circulation in eleven cases.

The Supervisory Board passed the necessary resolution for each proposal after carrying out thorough examinations and holding detailed discussions in its meetings. All of the members of the Supervisory Board were present at 13 meetings in the 2019 reporting year.

In the 2019 financial year, the work of the Supervisory Board focused on planning and developing the business of TLG IMMOBILIEN AG as well as the corporate strategy, the Alexanderplatz development project, property acquisitions, the expansion of the Management Board and the appointment of new members to the Supervisory Board. The merger with Aroundtown SA also played a significant role.

The Supervisory Board regularly held in-depth consultations on the development of the office and retail portfolio as well as on the cash flows and liquidity of the Group.

On 22 January 2019, the Supervisory Board passed a resolution by circulation to amend the share capital in the Articles of Association in accordance with Sec. 201 AktG due to the utilisation of the company's Authorised Capital 2017/III in 2018.

On 25 January 2019, in its first meeting in person, the Supervisory Board addressed the preparation of an extraordinary general meeting, which had been called by a shareholder. It also amended the rules of procedure for the Management Board in a circular resolution.

On 31 January 2019, the Supervisory Board passed a circular resolution on the judicial appointment to the seat on the Supervisory Board left vacant by the resignation of Dr Claus Nolting.

On 28 February 2019, the Supervisory Board passed a circular resolution on the revision of the declaration of compliance with the German Corporate Governance Code. It also resolved on the engagement of valuation services for 2019 to 2021.

In the meeting of the Supervisory Board held in person on 20 March 2019, the annual and consolidated financial statements for 2018 were presented and approved and both the appropriation of net retained profit and the appointment of the auditor were approved. The report of the Supervisory Board to the general meeting and the corporate governance report were also approved. Furthermore, resolutions were passed on the agenda for the annual general meeting in 2019 and on the selection of a notary for it. The portfolio analysis report was presented and matters relating to the Management Board were discussed.

On 22 March 2019, the Supervisory Board passed a circular resolution on the Alexanderplatz project.

In the meeting of the Supervisory Board held in person on 24 April 2019, the Board discussed the possibilities of a bond issue in May 2019 and resolved to engage Ernst & Young in connection with this. In the meeting of the Supervisory Board held as a teleconference on 16 May 2019, a resolution was passed to issue a bond.

In the meeting of the Supervisory Board held in person on 21 May 2019, the Supervisory Board elected a Chairperson (Mr Sascha Hettrich) and a Vice-chairperson (Mr Ran Laufer), as well as various members for the committees of the Supervisory Board. It also discussed the appointment of a new Supervisory Board member.

In the meeting of the Supervisory Board held as a teleconference on 28 May 2019, the Supervisory Board resolved to appoint a third member to the Management Board, Mr Barak Bar-Hen.

In three teleconferences and one circular resolution on 25 and 26 June 2019, the Supervisory Board addressed the execution of a capital increase from the company's Authorised Capital 2017/II.

In a teleconference held on 8 July 2019, the Supervisory Board had a comprehensive strategic discussion and then passed a circular resolution on 10 July 2019 approving the appointment of a strategic advisor.

On 11 July 2019, the Supervisory Board passed a circular resolution establishing a subsidiary in Luxembourg and engaging Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Luxembourg) to audit its opening balance.

In the meeting of the Supervisory Board held in person on 8 August 2019, the Supervisory Board discussed the bond issue in May and the capital increase in June 2019. The Supervisory Board also discussed potential acquisitions and the status of development projects. It also discussed the future strategy of the company again.

In the meeting of the Supervisory Board held in person on 30 August 2019, the Aroundtown SA project was presented to the Supervisory Board. This project was discussed again by the Supervisory Board in a teleconference on 31 August 2019. In the following teleconference of the Supervisory Board on 1 September 2019, the Supervisory Board approved the conclusion of an agreement concerning the acquisition of up to 15% of the shares of Aroundtown SA and on the opening of negotiations regarding a merger with it. In this context, the Supervisory Board passed a resolution to procure interim finance in another teleconference on 5 September 2019.

In another Supervisory Board teleconference held on 15 September 2019, the Supervisory Board approved the issuance of a bond and of a hybrid bond, each with a nominal value of up to EUR 600 m.

In the meeting of the Supervisory Board held in person on 22 October 2019, the Supervisory Board discussed the Aroundtown SA project, potential acquisitions, ongoing development projects, the call for tenders for the auditor, the strategy with regard to the interest in WCM Beteiligungs- und Grundbesitz Aktiengesellschaft and other matters relating to the Supervisory Board.

Subsequently, the Aroundtown SA project was monitored closely in three Supervisory Board meetings held in person (on 14 and 18 November and 17 December 2019) and four Supervisory Board teleconferences (on 24 and 26 October, 12 November and 22 December 2019) in which the Supervisory Board approved the term sheet and the conclusion of the business combination agreement as well as the publication of the joint report of the Management Board and Supervisory Board.

Furthermore, the Supervisory Board met in person on 4 November 2019 to approve the business plan for 2020 and discuss upcoming acquisitions, the business distribution plan of the Management Board and various matters pertaining to compliance.

On 16 December 2019, the Supervisory Board passed a circular resolution on the execution of the development project "Annenhöfe" in Dresden.

EFFICIENT WORK IN FOUR SUPERVISORY BOARD COMMITTEES

In order to efficiently fulfil its duties, the Supervisory Board formed committees and continuously evaluated their requirements and activities during the reporting year.

Specifically, there were four committees in the reporting year; the presidential and nomination committee, the audit committee, the capital market and acquisitions committee and the project development committee whose duties are described in more detail in the corporate governance report available at *https://ir.tlg.eu/corporategovernance*.

Where legally permissible, individual committees were granted decision-making powers by the rules of procedure or resolution of the Supervisory Board. At the meeting of the Supervisory Board following each committee meeting, the chairpersons of the committees reported on the work of the committees.

The **presidential and nomination committee** met once in the 2019 reporting year (on 28 May 2019). In this meeting, the committee discussed the appointment of Mr Barak Bar-Hen as another member of the Management Board and as CEO of TLG IMMOBILIEN AG and made a recommendation to this effect to the Supervisory Board.

In the reporting year, the **audit committee** met five times (on 20 March, 6 May, 28 May, 8 August and 4 November 2019) and passed one resolution by circulation (on 10 June 2019). In particular, the subjects discussed by the committee included the preliminary audit of the annual financial statements, consolidated financial statements and interim reports of TLG IMMOBILIEN AG. It provided the Supervisory Board with a recommendation on which auditor to appoint for the 2019 financial year, procured the independence declaration from the auditor and monitored the activities of the auditor. Furthermore, the audit committee approved the engagement of the Berlin office of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, with other assurance services in connection with the voluntary audit of a subsidiary and consulting as part of the Aroundtown SA project. The members of the audit committee have particular knowledge and experience in the application of GAAP and internal control processes.

The **capital market and acquisitions committee** met three times in the 2019 financial year (on 10 July, 30 July and 17 September 2019). The agendas of the meetings were strategic discussions and the capital measures implemented by TLG IMMOBILIEN AG.

The **project development committee** met a total of three times (on 6 March, 8 May and 30 July 2019). The meetings focused on the development project on Alexanderplatz and other planned development projects.

CORPORATE GOVERNANCE

The Supervisory Board continuously monitored and discussed the development of the corporate governance of the company. The corporate governance report available at *https://ir.tlg.eu/corporategovernance* contains detailed information on this system, including the structure and amount of remuneration paid to the Supervisory Board and Management Board.

The Management Board and Supervisory Board have discussed the requirements of the German Corporate Governance Code as applicable in the reporting year in detail, as well as their implementation. They have issued their updated joint declaration of compliance in accordance with Sec. 161 AktG and published it on the website of TLG IMMOBILIEN at *https://ir.tlg.eu/declaration-of-compliance*.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of TLG IMMOBILIEN AG and the consolidated financial statements as at 31 December 2019, including management reports, prepared by the Management Board were examined by the auditor appointed by the general meeting on 21 May 2019 and engaged by the Supervisory Board, the Berlin office of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, and given an unqualified opinion.

Once prepared, the annual and consolidated financial statements of TLG IMMOBILIEN AG, including management reports and the audit reports of the auditor, were issued to all members of the Supervisory Board without undue delay. The auditor attended the audit committee meeting held on 27 March 2020 and reported on the key results of the audit. After an in-depth discussion, the audit committee agreed with the results of the audit.

The Chairperson of the audit committee reported on the annual financial statements and the audit in detail at the meeting of the Supervisory Board held on 27 March 2020. Additionally, the auditor explained the main outcomes of the audit, answered questions and provided more information to the members of the Supervisory Board. The Supervisory Board carefully examined the annual financial statements, the management report, the Group management report, the proposed appropriation of net retained profits and the audit reports prepared by the auditor. No objections were raised. Therefore, the Supervisory Board accepted the recommendation of the audit committee and approved the annual and consolidated financial statements as at 31 December 2019 that had been prepared by the Management Board. The annual financial statements were therefore adopted.

The adopted annual financial statements contained net retained profits. The Supervisory Board accepted the proposal made by the Management Board as to the appropriation of the net retained profits. Therefore, the Supervisory Board and Management Board will add a vote on the payment of a dividend of EUR 0.96 per share (based on 107.6 m shares as at 31 December 2019) to the agenda of the general meeting in 2020. The proposal of the Management Board will remain subject to the further development of the coronavirus pandemic and the performance of the markets until the invitation to the annual general meeting is published.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Dr Claus Nolting stepped down from the Supervisory Board on 31 December 2018. Mr Jonathan Lurie was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 15 February 2019 until the end of the general meeting in 2019 in which Mr Lurie was elected as a member of the Supervisory Board. Mr Lurie was appointed as a member of the Supervisory Board until the end of the general meeting that resolves on the exoneration of the Supervisory Board for the fourth financial year after the start of his term of office, not counting the financial year in which his term of office started.

Mr Stefan E. Kowski stepped down from the Supervisory Board on 15 May 2019.

The terms of office of Dr Michael Bütter and Mr Michael Zahn on the Supervisory Board ended at the end of the annual general meeting of TLG IMMOBILIEN AG on 21 May 2019. On 21 May 2019, the annual general meeting of TLG IMMOBILIEN AG elected Mr Klaus Krägel and Mr Ran Laufer to succeed them as new members of the Supervisory Board. Mr Krägel and Mr Laufer were appointed as members of the Supervisory Board until the end of the general meeting that resolves on the exoneration of the Supervisory Board for the fourth financial year after the start of their terms of office, not counting the financial year in which their terms of office started.

Mr Barak Bar-Hen was appointed as another member of the Management Board and as CEO of TLG IMMOBILIEN AG with effect from 3 June 2019.

On behalf of the Supervisory Board, I would like to thank all members of the Management Board as well as the employees of TLG IMMOBILIEN for their commitment and the constructive work we have done this year.

Berlin, March 2020
For the Supervisory Board

Sascha Hettrich
Chairperson of the Supervisory Board

CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE

In this declaration, TLG IMMOBILIEN AG (also referred to as the "company") reports on the principles of management pursuant to Sec. 289f of the German Commercial Code (HGB) and on corporate governance pursuant to Sec. 161 of the German Stock Corporation Act (AktG) and recommendation 3.10 of the German Corporate Governance Code (the "Code"). Besides a declaration of compliance with the Code, the declaration contains information on management practices as well as the composition and methods of the Management Board and Supervisory Board and Supervisory Board committees.

IMPLEMENTATION OF THE CODE

Corporate governance denotes the responsible management and control of a company with a view to generating value over the long term. The management and the corporate culture of TLG IMMOBILIEN AG comply with the statutory provisions and – with a few exceptions – the supplementary recommendations of the Code. The Management Board and Supervisory Board feel committed to ensuring good corporate governance, and all divisions of the company adhere to this objective. The company focuses on values such as expertise, transparency and sustainability.

In the 2019 financial year, the Management Board and Supervisory Board worked carefully to meet the requirements of the Code. They factored in the recommendations of the Code from 7 February 2017 and, pursuant to Sec. 161 AktG, they issued their declaration of compliance with the recommendations of the Code for the 2019 financial year accompanied by statements regarding the few deviations. The declaration is published on the company's website at *https://ir.tlg.eu/declaration-of-compliance*.

DECLARATION OF COMPLIANCE

In November 2019, the Management Board and Supervisory Board of the company issued the following joint declaration of compliance pursuant to Sec. 161 of the German Stock Corporation Act (AktG):

The Management Board and Supervisory Board of TLG IMMOBILIEN AG declare that TLG IMMOBILIEN AG (the "company") has fulfilled the recommendations of the amended German Corporate Governance Code dated 7 February 2017 (published on 24 April 2017 and corrected on 19 May 2017) (the "Code") since the last declaration of compliance in March 2019, subject to the following exceptions, and intends to fulfil all of the recommendations in the future.

RECOMMENDATION 4.2.1 SENTENCE 1 OF THE CODE: THE MANAGEMENT BOARD SHALL HAVE A CHAIR OR SPOKESPERSON

Recommendation 4.2.1 (1) sentence 1 of the Code recommends that the Management Board have a chair or spokesperson.

Until the appointment of Mr Barak Bar-Hen as Chairperson of the Management Board and CEO of the company, the company had opted for a dual leadership model by appointing a CFO and a COO and relied on the two members of the Management Board to work together closely and productively and allocate fields of responsibility properly.

Following the appointment of Mr Barak Bar-Hen as Chairperson of the Management Board and CEO as at 3 June 2019, the company has a Management Board consisting of three persons with the traditional CEO-CFO-COO structure and has met the specifications of recommendation 4.2.1 sentence 1 of the Code ever since.

RECOMMENDATION 5.1.2 (2) SENTENCE 3 OF THE CODE: THE SUPERVISORY BOARD SHALL SPECIFY AN AGE LIMIT FOR THE MEMBERS OF THE MANAGEMENT BOARD

According to recommendation 5.1.2 (2) sentence 3 of the Code, the Supervisory Board shall specify an age limit for the members of the Management Board.

The company does not consider the specification of a general age limit a reasonable criterion for the selection of suitable Management Board members. An age limit is not currently an issue between the persons currently appointed to the Management Board. Additionally, with regard to decisions affecting the composition of a functional, effective Management Board, the appointment of a member with many years of experience can be in the interest of the company, rendering the specification of a general age limit unreasonable in the eyes of the company, regardless of the candidate in question.

RECOMMENDATION 5.4.1 (4) SENTENCE 1 OF THE CODE: CONSIDERATION FOR TARGETS FOR THE SHARE OF FEMALE MEMBERS

According to recommendation 5.4.1 (4) sentence 1 of the Code, proposals by the Supervisory Board to the general meeting shall take the targets for the share of female members on the Supervisory Board into account.

In its meeting on 23 May 2017, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%. The Supervisory Board is not currently meeting this target and was unable to take these targets into account in its proposals to the general meeting due to a lack of available female candidates.

RECOMMENDATION 5.4.3 SENTENCE 3 OF THE CODE: PROPOSED CANDIDATES FOR THE SUPERVISORY BOARD CHAIR

According to recommendation 5.4.3 sentence 3 of the Code, proposed candidates for the Supervisory Board Chair shall be announced to the shareholders.

Due to the multitude of positions and candidates up for election with regard to the Supervisory Board in the 2019 annual general meeting, it was not possible to coordinate potential candidates for the Supervisory Board Chair in advance. After the end of the general meeting, the newly elected Supervisory Board elected its Chair from within its own ranks in its constitutive meeting.

Furthermore, the company voluntarily fulfils the recommendations of the Code with the following exception:

According to recommendation 2.3.3 of the Code, the company should make arrangements to allow shareholders to follow the general meeting using modern means of communication (e.g. the Internet). In order to preserve the character of the general meeting as a personal meeting of its shareholders, the company has decided not to follow this recommendation. Instead, the results of votes and the presentation of the Management Board are published on the company's website.

MANAGEMENT PRACTICES

TLG IMMOBILIEN AG is managed in the following way:

METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As an Aktiengesellschaft (stock corporation) incorporated under German law, TLG IMMOBILIEN AG has a dual management system consisting of the Management Board and the Supervisory Board. They work closely together to further the interests of the company. The Management Board runs the company whilst the Supervisory Board advises and monitors it. The shareholders of TLG IMMOBILIEN AG exercise their rights in the general meeting.

MANAGEMENT BOARD

The Management Board is responsible for the management of the company in accordance with the statutory provisions, the Articles of Association and the rules of procedure for the Management Board. It is obliged to serve the interests of the company. The Management Board develops the strategy of the company, coordinates it with the Supervisory Board and ensures that it is implemented. It is also responsible for reasonable risk management and control and for submitting regular, prompt and comprehensive reports to the Supervisory Board.

The Management Board performs its management duties as a collegial body in which the members of the Management Board hold the same voting rights. The Board’s overall responsibility for management notwithstanding, the members of the Management Board manage the divisions to which each has been assigned by the Management Board on their own authority. Mr Barak Bar-Hen is the CEO of the Management Board. The divisions are divided between the members of the Management Board as set out in the rules of procedure for the Management Board. Mr Gerald Klinck is responsible for finance, controlling, accounting, investor relations, legal, IT/organisation and human resources. Mr Jürgen Overath is responsible for investments, portfolio/asset management, marketing and public relations, acquisitions and disposals, property management and development projects. All members of the Management Board are jointly responsible for the auditing division.

The work of the Management Board is governed in more detail by rules of procedure. The rules of procedure stipulate that the strategic orientation of the company and the strategic allocation of resources are determined by the entire Management Board. Additionally, measures and transactions which are of extraordinary significance to the company and/or Group companies, or which involve an extraordinarily high economic risk, require the prior approval of the entire Management Board. Furthermore, the rules of procedure and Articles of Association require certain transactions of fundamental significance to be approved by the Supervisory Board or one of its committees in advance.

The Management Board provides the Supervisory Board with regular, prompt and comprehensive reports on all relevant matters of strategy, planning, business development, risk, risk management and compliance.

SUPERVISORY BOARD

The Supervisory Board monitors and advises the Management Board. It works closely with the Management Board to further the interests of the company and is involved in all decisions of fundamental importance.

Its rights and duties are determined by the statutory provisions, the Articles of Association, the rules of procedure for the Supervisory Board and the rules of procedure for the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning.

It works both in plenary sessions and in committees (more details below). The committees work to improve the efficiency of the Supervisory Board's activities. The chairpersons of the committees regularly report to the Supervisory Board on the work of their committees. In line with its rules of procedure, the Supervisory Board must convene at least twice every six months. Otherwise, it convenes whenever the interests of the company require it. Four Supervisory Board meetings are currently scheduled for the 2020 calendar year.

In particular, the members of the Supervisory Board are selected by virtue of their expertise, abilities and professional suitability. In its rules of procedure and profile of skills and expertise, the Supervisory Board has set itself the objective of taking the following into consideration with regard to its composition and as part of the specific situation of the company: shareholder structure, current and potential conflicts of interest and competitive relationships, other professional activities, the number of independent members, an age limit of 75, a regular limit of the term of office of 15 years or three terms and the diversity of the members of the Supervisory Board. Besides the statutory requirements (Sec. 100 AktG), the proposals of the Supervisory Board regarding the appointment of members of the Supervisory Board adhere to the regulations of the German Corporate Governance Code as amended concerning the personal requirements of Supervisory Board members and the composition targets set by the Supervisory Board. At least one member of the Supervisory Board must be an expert in either accounting or auditing (Sec. 100 (5) clause 1 AktG). According to Sec. 100 (5) clause 2 AktG, all of the members of the Supervisory Board must also be familiar with the sector in which the company operates. The company has followed the specific recommendations of recommendation 5.4.1 (2) and (3) of the Code which concern the composition of the Supervisory Board under certain criteria, the inclusion of these objectives in the recommendations of the Supervisory Board and the publication of the objectives and their implementation status in the Corporate Governance Report.

PROPORTION OF WOMEN

In its meeting on 23 May 2017, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%. The Supervisory Board is not currently meeting this target and was unable to take these targets into account in its proposals to the general meeting due to a lack of available female candidates.

The minimum target proportion of women on the Management Board of TLG IMMOBILIEN AG is zero.

In its meeting on 29 June 2017, the Management Board set the minimum proportion of women on the first management level below the Management Board at 10% and the minimum proportion of women on the second management level below the Management Board at 30%; the proportion of women on these management levels may not fall below this target before 30 June 2022.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Pursuant to the Articles of Association, the Management Board consists of at least two people. The Supervisory Board specifies the number of members. In the 2019 financial year, the Management Board initially consisted of two equal members, each of whom was responsible for the divisions to which they had been assigned. The Management Board has had a third member, the CEO, since June 2019.

Pursuant to the Articles of Association, the Supervisory Board consists of six members, although one seat is currently vacant. It is not subject to any employee participation. All of the members are elected by the general meeting as representatives of the shareholders.

Dr Claus Nolting stepped down from the Supervisory Board on 31 December 2018. Mr Jonathan Lurie was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 15 February 2019 until the end of the general meeting in 2019 in which Mr Lurie was elected as a member of the Supervisory Board. Mr Lurie was appointed as a member of the Supervisory Board until the end of the general meeting that resolves on the exoneration of the Supervisory Board for the fourth financial year after the start of his term of office, not counting the financial year in which his term of office started.

Mr Stefan E. Kowski stepped down from the Supervisory Board on 15 May 2019.

The terms of office of Dr Michael Bütter and Mr Michael Zahn on the Supervisory Board ended at the end of the annual general meeting of TLG IMMOBILIEN AG on 21 May 2019.

On 21 May 2019, the annual general meeting of TLG IMMOBILIEN AG elected Mr Klaus Krägel and Mr Ran Laufer to succeed them as new members of the Supervisory Board. Mr Krägel and Mr Laufer were appointed as members of the Supervisory Board until the end of the general meeting that resolves on the exoneration of the Supervisory Board for the fourth financial year after the start of their terms of office, not counting the financial year in which their terms of office started.

All of the members of the Supervisory Board are also familiar with the commercial real estate sector.

The Supervisory Board prepared a profile of skills and expertise in 2018 and expanded the diversity criteria.

Pursuant to Sec. 285 no. 10 HGB, more information on the members of the Management Board and Supervisory Board can be found in the notes to the annual financial statements of TLG IMMOBILIEN AG (*page 12 and 13*).

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and Supervisory Board work closely together to further the interests of the company. The intensive, continuous dialogue between the two Boards serves as the basis of efficient, strategic corporate management. The Management Board develops the strategy of TLG IMMOBILIEN AG, coordinates it with the Supervisory Board and ensures that it is implemented.

The Management Board discusses the progress of the implementation of its strategy with the Supervisory Board at regular intervals. The Chairperson of the Supervisory Board is in regular contact with the Management Board and provides it with guidance on matters of strategy, planning, business development, the risk situation, risk management and compliance. The Management Board reports to the Chairperson of the Supervisory Board without undue delay on significant events that are of key relevance to an assessment of the situation and developments and to the management of the company and its Group companies. The Chairperson of the Supervisory Board then notifies the Supervisory Board and, if necessary, convenes an extraordinary meeting of the Supervisory Board. In the 2019 financial year, the work between the Management Board and Supervisory Board focused primarily on the strategy of the company, various development project measures and the Aroundtown SA project.

In accordance with the Articles of Association and rules of procedure of the Management Board, transactions of fundamental significance are subject to the approval of the Supervisory Board.

The members of the Management Board must report any conflicts of interest to the Supervisory Board and their fellow Management Board members without undue delay. Significant transactions between members of the Management Board or related parties and the company require the approval of the Supervisory Board, as does any secondary employment outside of the company.

A D&O group insurance policy has been taken out for the members of the Management Board and Supervisory Board. This policy contains an excess that meets the requirements of Sec. 93 (2) sentence 3 AktG and recommendation 3.8 of the Code.

COMMITTEES OF THE SUPERVISORY BOARD

In the 2019 financial year, the Supervisory Board had four committees: the presidential and nomination committee, the audit committee, the capital market and acquisitions committee and the project development committee. Other committees can be formed if necessary.

PRESIDENTIAL AND NOMINATION COMMITTEE

The presidential and nomination committee provides advice on its areas of expertise and prepares resolutions for the Supervisory Board, especially concerning the following matters:

a) Appointing and dismissing members of the Management Board;
b) Concluding, amending and terminating the employment contracts of members of the Management Board;
c) The structure of the remuneration system for the Management Board, including the key contractual elements and the total remuneration for each member of the Management Board;
d) Supervisory Board recommendations for the general meeting in connection with the election of suitable members of the Supervisory Board;
e) Principles of financing and investments, including the capital structure of TLG IMMOBILIEN Group companies and dividend payments;
f) Principles of acquisition and disposal strategies, including the acquisition and disposal of individual shareholdings of strategic significance.

In consultation with the Management Board, the presidential and nomination committee regularly advises on long-term succession planning for the Management Board.

As at March 2020, the presidential and nomination committee consisted of Mr Sascha Hettrich, Mr Jonathan Lurie and Mr Ran Laufer. The Chairperson of the Supervisory Board is also the Chairperson of the presidential and nomination committee.

AUDIT COMMITTEE

The audit committee predominantly monitors the accounting process, the effectiveness of the internal control system and audit system, the audit of the financial statements – especially the independence of the auditor – the additional services rendered by the auditor, the selection of an auditor, the identification of main audit points, the auditor's fee and compliance.

The audit committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if necessary, the consolidated financial statements), i.e. it is primarily responsible for the preliminary audit of the documents of the annual financial statements and consolidated financial statements, the preparation of their approval/adoption and the proposed appropriation of profits by the Management Board. Furthermore, the audit committee prepares the agreements with the auditor (especially the awarding of the audit contract, the definition of focal points for the audit and the agreed fees) as well as the appointment of the auditor by the general meeting. This also involves the verification of the necessary degree of independence, in which regard the audit committee takes reasonable steps to determine and monitor the independence of the auditor. In lieu of the Supervisory Board, the audit committee approves contracts with auditors for additional consultancy services if such contracts require consent. The audit committee discusses the principles of compliance, risk documentation, risk management and the suitability and effectiveness of the internal control system with the Management Board. Four audit committee meetings are currently scheduled for the 2020 calendar year.

As at March 2020, the audit committee consisted of Mr Helmut Ullrich (Chairperson), Mr Jonathan Lurie and Mr Sascha Hettrich. The Chairperson of the audit committee is independent and has particular knowledge and experience in the application of GAAP and internal control processes, and therefore meets the requirements of Sec. 100 (5) clause 1 AktG. The members of the audit committee are experts in accounting and auditing, and the composition of the committee meets all independence requirements in terms of the European Commission Regulation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), as well as the recommendations of the Code.

CAPITAL MARKET AND ACQUISITIONS COMMITTEE

The committee advises the Management Board on transactions relating to the capital markets and acquisitions. It grants any necessary approvals in lieu of the plenary session.

The members of the capital market and acquisitions committee are Mr Sascha Hettrich (Chairperson), Mr Helmut Ullrich and Mr Jonathan Lurie.

PROJECT DEVELOPMENT COMMITTEE

The committee advises the Supervisory Board on development projects.

The committee consists of Mr Klaus Krägel (Chairperson), Mr Sascha Hettrich and Mr Ran Laufer.

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. The Management Board performs its management duties as a collegial body with a chairperson, although the individual members of the Management Board are responsible for their own divisions.

GENERAL MEETING AND SHAREHOLDERS

The shareholders of TLG IMMOBILIEN AG can exercise their rights in the general meeting, including their voting rights. Every share in the company grants one vote.

The general meeting takes place annually, within the first eight months of the financial year. The agenda of the general meeting and the reports and documents required for the general meeting are published on the company's website at *https://ir.tlg.eu/agm*.

Fundamental resolutions are passed in general meetings. These include resolutions on the appropriation of profits, the exoneration of the Management Board and Supervisory Board, the election of members to the Supervisory Board, the appointment of the auditor, amendments to the Articles of Association and capital measures. The general meeting is an opportunity for the Management Board and Supervisory Board to come face to face with the shareholders and discuss the future course of the company.

In order to make it easier for them to exercise their rights, TLG IMMOBILIEN provides its shareholders with a proxy who is bound to follow their instructions; the proxy remains available during the general meeting. The invitation to the general meeting explains how instructions can be issued in the run-up to the general meeting. Additionally, the shareholders are free to have an authorised representative of their choice represent them in the general meeting.

OTHER MATTERS OF CORPORATE GOVERNANCE

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration system for the Management Board is regularly the subject of consultation, examination and revision in the plenary sessions of the Supervisory Board.

The contracts of the members of the Management Board of TLG IMMOBILIEN AG contain fixed and variable remuneration components. For all members of the Management Board, the variable remuneration is adapted to the requirements of Sec. 87 (1) sentence 3 AktG. It is contingent on the achievement of economic targets and is predominantly based on multi-year assessment principles. The variable remuneration is only payable if the course of business was sufficiently positive. The remuneration structure has been designed to ensure sustainable corporate development, which optimises the effects of risks and rewards of the variable remuneration.

The detailed remuneration report of TLG IMMOBILIEN AG for the 2019 financial year is published on the website of the company at *https://ir.tlg.eu/remuneration-report*.

REMUNERATION OF (EXECUTIVE) EMPLOYEES

In January 2015, a long-term incentive programme was introduced for executives and other individual employees whose incentives – like a share option scheme – are based on the development of external factors (e.g. the FTSE EPRA/NAREIT Europe Index) over a period of four years. The calculations and defined targets of this programme comply with the long-term incentive regulations of the Management Board, which are set out in the remuneration report.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is set out in Sec. 13 of the Articles of Association. In accordance with Sec. 13, the members of the Supervisory Board receive fixed annual remuneration of EUR 40,000. The Chairperson of the Supervisory Board receives three times this amount and the Vice-chairperson receives one and a half times this amount. The sum of all remuneration per member of the Supervisory Board may not exceed EUR 150,000 (excluding VAT) per calendar year.

Additionally, members of the audit committee receive fixed annual remuneration of EUR 10,000 and members of other committees of the Supervisory Board receive fixed annual remuneration of EUR 7,500. The Chairperson of each committee receives double this fixed amount.

Additionally, the expenses of the members of the Supervisory Board are reimbursed. Additionally, the company has added the members of the Supervisory Board to a D&O group insurance policy for corporate bodies. This policy features an excess for the members of the Supervisory Board in accordance with recommendation 3.8 of the Code.

No performance-based remuneration is paid to the members of the Supervisory Board. The remuneration report contains a breakdown of the remuneration of each member of the Supervisory Board.

REPORTABLE SECURITY TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT AND SUPERVISORY BOARDS

Under Article 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), the members of the Management Board and Supervisory Board of TLG IMMOBILIEN AG, including related parties, are obliged to disclose transactions involving shares of TLG IMMOBILIEN AG or financial instruments relating to said shares without undue delay, or within three working days of the date of the transaction at the latest. Pursuant to Article 19 (3) of the Market Abuse Regulation, the company publishes these transactions without undue delay after having been informed of them, or within three working days of the transaction at the latest. The disclosures are available on the company's website at *https://ir.tlg.eu/directors-dealings*.

COMPLIANCE AS A SIGNIFICANT MANAGERIAL RESPONSIBILITY

In order to ensure adherence to the code of conduct of the Code, as well as the statutory provisions, TLG IMMOBILIEN AG has appointed a compliance officer and a capital market compliance officer. The former informs the management and employees of any relevant legal requirements. The latter maintains the insider list of the company and informs the management, employees and business partners of the consequences of breaches of insider trading regulations.

REASONABLE RISK AND OPPORTUNITY MANAGEMENT

For TLG IMMOBILIEN AG, responsible conduct in the face of opportunities and risks is of fundamental importance. This is ensured by comprehensive opportunity and risk management which identifies and monitors significant opportunities and risks. The system is continuously enhanced and adapted based on the changing general conditions.

More detailed information on the risk monitoring system of the company is available in the management report: The risk management system of TLG IMMOBILIEN AG is presented on *page 35*. Information on Group accounting can be found on *page 44*.

COMMITTED TO TRANSPARENCY

As part of ongoing investor relations, at the start of the year, all dates of importance to shareholders, investors and analysts are marked in the financial calendar for the duration of each financial year. The financial calendar, which is updated continuously, is published on the website of the company at *https://ir.tlg.eu/financial-calendar*.

The company provides information to shareholders, analysts and journalists in line with holistic criteria. The information is transparent and consistent for all market participants. Ad hoc announcements, press releases and presentations of press and analysts' conferences are published on the company's website immediately.

Insider information (ad hoc publicity), voting rights notifications and security transactions involving members of the Management and Supervisory Boards or their related parties (directors' dealings) are published by TLG IMMOBILIEN AG in line with the statutory provisions. They are also available on the company's website at *https://ir.tlg.eu/directors-dealings*.

FINANCIAL REPORTING

Once again, the Berlin office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed auditor and Group auditor for 2019 by the general meeting. Before the general meeting, the auditor issued a declaration that there were no business, financial, personal or other relationships between the auditor, its bodies or audit managers and the company or the members of its bodies which could bring the impartiality of the auditor into question.

MORE INFORMATION

More information on the activities of the Supervisory Board and its committees, and on its collaboration with the Management Board, is available in the report of the Supervisory Board.

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MANAGEMENT REPORT ON THE POSITION OF THE COMPANY AND OF THE GROUP 2019

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

TLG IMMOBILIEN AG is the ultimate parent company of the TLG IMMOBILIEN Group. It manages a number of own properties as well as those of its subsidiaries, including the listed company WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft for which it performs all operational activities under service contracts.

The activities of TLG IMMOBILIEN to implement its strategy with regard to its property portfolio are based on the following pillars:

- Portfolio management
  Portfolio management determines and monitors the strategic orientation of the portfolio with regard to regional markets and locations, the individual asset classes and general trends in the property market in terms of value preservation and improvement, and is responsible for property valuations.

- Asset management
  Asset management identifies the strategy for each property and is responsible for implementing it through rental agreements, conversions and modernisations.

- Development
  Properties with previously untapped potential are to be repurposed through fundamental development and construction measures in order to improve their structural quality, profitability and value development. A development team steers this transformation process from preliminary planning to structural realisation.

- Property management
  Property management is responsible for all of the duties of ongoing property management. This includes maintaining tenant relations in both a practical and commercial sense as well as involving and managing service providers as part of property management. The property management team is decentralised so as to ensure close proximity to tenants and properties.

- Transaction management
  Transaction management proactively implements the portfolio strategy on the basis of its market knowledge and networks in order to generate value growth through acquisitions and dispose of non-strategic properties. Acquisition and disposal processes are controlled by the transaction management team from the identification of potential transaction partners to a due diligence phase and contractual negotiations and execution.

Our tenants as well as the quality of the properties they use and the services rendered in connection with them are key factors in the success of our business activities. Another objective is to further optimise the property portfolio through active asset management and strategic development measures and realise any potential value growth. The acquisition of properties with the potential to increase in value combined with the disposal of properties is a strategy designed to fine-tune the alignment of the overall portfolio.

1.2 CONTROL SYSTEMS

The objective of TLG IMMOBILIEN's control system is the permanent and stable further development of the property portfolio as well as the generation of high and sustainable earnings from its management in the interests of the shareholders, employees and business partners. The fully integrated business plan, which has to be prepared annually and which covers a medium-term planning horizon of five years, serves as the basis. The key components of the business plan are rental income, management, investments and disposals, administrative costs and finance. The sub-plans are reflected in the income, asset and financial planning of the Group.

Monthly reports guarantee internal transparency with regard to the performance of the company during the year, e.g. by means of the key performance indicators. In particular, the main key performance indicators are the funds from operations (FFO), Net Loan to Value Ratio (Net LTV) and the EPRA Net Asset Value (EPRA NAV), which are also disclosed in the quarterly reports. The drivers of these three key performance indicators, such as rental income, weighted average lease term (WALT), vacancy rates and investments, are monitored and reported on every month in the controlling reports. Monthly performance analyses serve to evaluate the current performance of the company and facilitate the punctual initiation of controlling measures.

The formula for calculating the key performance indicators of the company is illustrated in the section concerning financial performance indicators in this report on the position of the company and the Group.

The management of TLG IMMOBILIEN is the responsibility of the Management Board. The Supervisory Board monitors and advises the Management Board on its managerial activities in line with the internal regulations of the company and the expectations of its shareholders. As at the reporting date, the Supervisory Board consisted of five members.

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND PROPERTY MARKETS

2.1.1 General economic situation

"Economic downturn despite growth" is a succinct description of the performance of the economy last year. Following growth of 2.5% and 1.5% in 2017 and 2018 respectively, Germany's gross domestic product grew by just 0.6% in 2019 according to the Federal Statistical Office (Destatis). One reason for the relatively weak growth is the weak global economy which is damaging the export industry in particular. Conflicts such as Brexit and the trade dispute between the USA and China are causing uncertainty amongst companies worldwide. Nevertheless, the level of industrial activity is stabilising and could even increase again slightly in the new year according to the Federal Ministry for Economic Affairs and Energy (BMWI).

According to the BMWI, the volume of incoming orders and turnover has evened out at a low level. At the same time, the Business Climate Index increased slightly in autumn. Positive news is also coming from Germany's domestic economy which has remained stable. This has profited the service and construction sectors which are driven by the domestic economy. According to Destatis, in the first eleven months of the year, the volume of incoming orders in the main construction industry was 4% higher than in the same period in the previous year (real and calendar-adjusted).

The decline in growth has only had a slight impact on the job market. According to the German Federal Employment Agency, the number of employed people subject to social security contributions was 1.5% higher in 2019 than in the previous year, although it was not as strong as in previous years. The growth was strongest in the fields of qualified corporate services, health care, IT and communication, care and social affairs and in the construction industry. At 4.9% in December 2019, the unemployment rate had not changed since the previous year. According to destatis, actual wages have increased by 1.2% compared to the previous year. The positive situation in the job market explains the increase in private expenditure which was 2.1% higher in the third quarter of 2019 than in the same quarter in the previous year.

Property markets performed positively; according to Jones Lang LaSalle (JLL), the German property investment market (including housing) even set a new record with a transaction volume of EUR 91.3 bn. This represents a 16% increase compared to 2018. The volume of transactions was at the same level as the previous year in the third quarter of 2019. Properties worth EUR 34 bn were sold between September and December, which represents around one third of the total annual volume. This far surpasses the previous quarterly record of EUR 26.5 bn in 2016. At EUR 56.2 bn, 62% of the total annual volume was attributable to individual transactions. The proportion of portfolio transactions therefore increased to 38%. Its absolute volume increased by 24% to EUR 35 bn in 2019. Office properties increased their lead over other usage types, reaching a share of 41% (compared to 38% in 2018). Making up around one quarter of the transactions, residential properties remained the second-strongest usage class.

2.1.2 Development of the office property market

The record in the property investment market has also affected the office rental market. According to JLL, 4.03 million square metres of office space were rented out under new agreements in the seven largest German cities in 2019. That is 1.6% higher than in 2018 and the strongest level of turnover in recent years, alongside 2017. Stuttgart was at the top of the growth ranking with turnover of 319,000 sqm – 48% higher than in the previous year. Düsseldorf saw its turnover increase by one third to 550,000 sqm and Berlin experienced 19% growth to almost 1,000,000 sqm. In contrast, Munich in particular experienced a decline, with 22% less space being rented out than in 2018. Nevertheless, the volume of turnover was higher than the ten-year average.

At 1.12 million square metres, the office completion rate passed the million threshold and reached its highest level since 2010. In the top seven cities alone, 21% more office space was added to the market than in 2018. Nevertheless, vacancy rates continue to fall and will continue to do so until 2021 when the supply can meet the demand. Cologne is at the top of the list with a 33% decrease. The rate sank to 1.8% in Berlin, making it the lowest vacancy rate in Germany. Of the 1.5 million square metres of office space currently being created in Berlin, around half has not yet been rented out.

The fact that demand is surpassing supply is reflected by rising rents for one. The average top rent in the seven metropolises increased by 5.4% in 2019. At 218 points, JLL's top rent index for these cities is at its highest since 1992. Rental growth was strongest in Cologne and Berlin in 2019 with increases of 11% and 9% respectively.

2.1.3 Development of investments and development projects

In light of the pressure on yields and the scarcity of products, the significance of investments in development projects has increased considerably – especially in the office segment. According to bulwiengesa, the volume of office space in development projects (only trading development) increased by 23% in all seven A-rated cities in the previous year – and by 32% in Berlin – whereas the development in the housing sector was negative. These developments are due to low vacancy rates in the major office markets and rental growth in previous years, says bulwiengesa. In some markets, pre-letting during the planning and construction phase is now no longer uncommon. Colliers estimates that almost half of the volume of commercial property transactions in Berlin in the first three quarters of 2019 was attributable to development projects.

2.1.4 Development of the retail property market

The increase in retail turnover overtook economic growth in 2019. Destatis estimates that the adjusted volume of retail turnover was 2.9% higher in 2019 than in the previous year. This estimate is based on retail turnover figures from January to November 2019. Whereas retailers of food, drinks and tobacco products saw an adjusted 3% increase in turnover in November 2019 compared to the same month in the previous year, the volume of turnover in the retail of non-food products grew by an adjusted 2.7%. Other retailers which sell products such as books achieved the largest growth at 6.5%. According to the German E-Commerce and Distance Selling Trade Association (bevh), e-commerce in particular continued to grow and set a new record with total turnover of EUR 72.6 bn in 2019. With an increase of 11.6% since 2018, the rate of online growth is far above the average for retail as a whole.

As reported by BNP Paribas Real Estate, consumer confidence in Germany has had an impact on the transaction figures in the retail property market. While the first three quarters were slow, the situation changed in the fourth quarter when properties worth EUR 5.4 bn changed hands. This corresponds to 42% of the annual profit of EUR 12.9 bn. As such, an increase of 15% was achieved for the year overall. According to BNP Paribas Real Estate, this is not due to the number of transactions, which remained at the same level as in the previous year, but rather on the scale of the transactions which has increased on average from EUR 29 m to EUR 34 m. Special retail centres accounted for the largest portion of the volume of transactions (40%) with over 200 transactions with a total value of EUR 5.1 bn. Most are situated in smaller cities with less than 100,000 residents, which explains why a quarter of the volume of sales is attributable to those cities. The largest retail investment market is Berlin, which grew by 8% to EUR 1.5 bn.

2.1.5 Development of the hotel property market

According to Destatis, the German hospitality sector recorded 432.2 m overnight stays from January to October 2019, which represents an increase of 3.6% over the first ten months of the previous year. Despite the weak economic growth, the hotel industry proved robust and profited from the positive buyer confidence. Germany remains an attractive travel destination and meeting point. Over half (55.3%) of the hotel operators surveyed by the industry association Dehoga rated their business situation in the summer of 2019 as good; 33.9% rated it as satisfactory and just 10.8% as poor. 39.7% of the businesses were able to increase their turnover and 25.3% their income too. However, rising operating costs caused income to decline for 40.4% of the businesses. According to Destatis, the volume of turnover in hospitality businesses increased nominally by an average of 3.4% between January and November 2019, or 0.9% in adjusted terms.

Investors expect the hotel industry to perform well. According to BNP Paribas Real Estate, the volume of transactions of EUR 5 bn just barely fell short of the record result in 2016. The group of investors most willing to spend money was special funds, which accounted for over one quarter of the investment turnover. Real estate corporations and real estate investment trusts were in second place with almost 18%.

2.2 COURSE OF BUSINESS

General statement

TLG IMMOBILIEN was able to maintain its growth successfully in the 2019 financial year. The successful conclusion of rental agreements, remeasurements and one acquisition were the drivers of the 15% growth in real estate assets to around EUR 4.7 bn. The net operating income from letting activities increased by 6%. Overall, the Group’s annual profit was EUR 267 m higher than in the previous year.

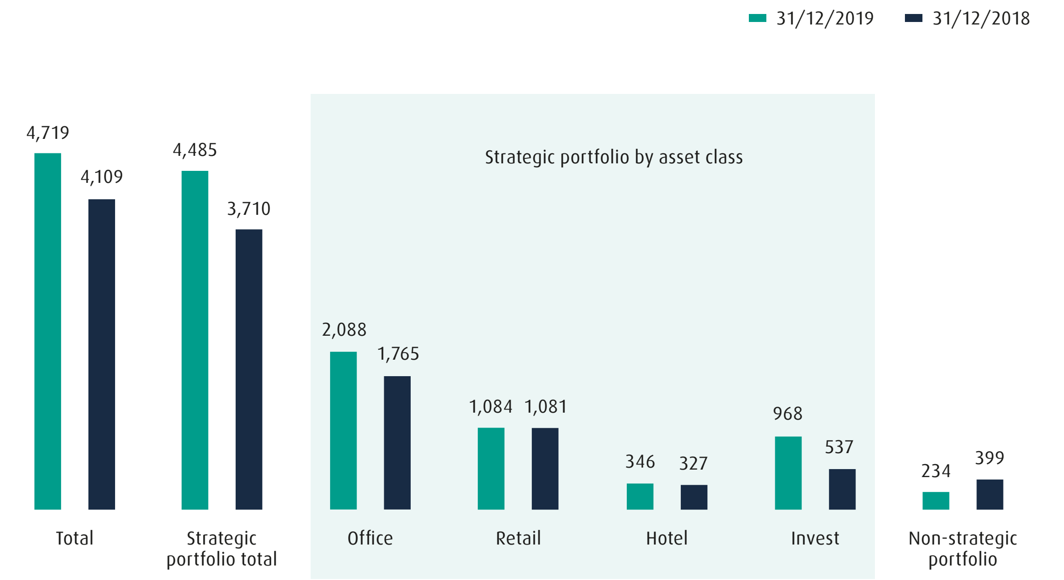
TLG IMMOBILIEN classifies the properties in its portfolio into a strategic portfolio and a non-strategic portfolio. The strategic portfolio has comprised the office, retail and hotel asset classes, as well as the invest asset class since 30 June 2019. The invest asset class contains properties whose strategies involve future and sometimes even various stages of ongoing development project measures, and as such are expected to undergo a fundamental transformation. The primary purpose of the properties in the office, retail and hotel asset classes is to generate sustainable earnings. Nevertheless, these properties also have the potential to generate additional income and value through active asset management and strategic investments. Properties in the non-strategic portfolio are to be disposed of over the next few years when the situation in the market is favourable.

As at 31 December 2019, the property portfolio of TLG IMMOBILIEN comprised 357 properties (previous year 409) with a fair value (IFRS) of around EUR 4.719 bn (previous year around EUR 4.109 bn). Besides acquisitions (14.5%), the effects of disposals (–27.0%) and investments in the portfolio (8.6%), the increase of around EUR 610 m is due to remeasurements (104.7%) in particular.

In terms of the property value as at 31 December 2019, 75.8% of the properties in the invest asset class were previously in the office asset class and the other 24.2% are retail properties. The figures from the previous year have been adjusted here in light of the new portfolio structure including the new invest asset class.

The property values have developed differently depending on the portfolio strategy:

in EUR m



On a like-for-like basis, i.e. without factoring in the acquisitions and disposals in 2019, its value increased by 17.4% due to the positive market developments, especially in Berlin, and the portfolio and asset management measures of TLG IMMOBILIEN. With regard to the strategic portfolio, the increase was 18.9%; the non-strategic portfolio experienced a 5.3% decline.

The annualised in-place rent of EUR k 13,078 which declined in the reporting year due to property disposals is counteracted by rental income of EUR k 5,520 through acquisitions. Overall, the annualised in-place rent has decreased by 0.5% year-over-year to EUR k 225,939 (previous year EUR k 227,154).

The EPRA Vacancy Rate for the entire portfolio decreased slightly to 3.1% (previous year 3.3%). The weighted average lease term (WALT) of all temporary rental agreements has decreased from 6.1 years to 5.6 years.

2.3. NET ASSETS, CASH FLOWS AND FINANCIAL PERFORMANCE, FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.3.1 Financial performance

TLG IMMOBILIEN closed the 2019 financial year extremely successfully with net income of EUR k 578,319.

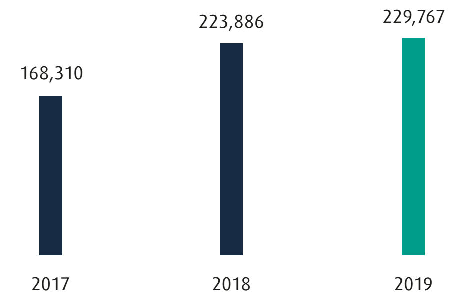
The net income was EUR k 267,373 higher than in the previous year. The EUR k 85,482 increase in the result from the remeasurement of investment property was one key driver. The net income from companies measured at equity of EUR k 49,817 also had a positive effect. The result in the previous year was influenced negatively by the amortisation of goodwill totalling EUR k 164,724 resulting mainly from the takeover of WCM. The table below presents the financial performance:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018	Change	Change in %
Net operating income from letting activities	**209,331**	**196,726**	**12,605**	**6.4**
Result from the remeasurement of investment property	638,366	552,884	85,482	15.5
Result from the disposal of properties	20,533	7,833	12,700	162.1
Other operating income	1,756	1,996	−240	−12.0
Personnel expenses	−18,720	−16,505	−2,215	13.4
Depreciation and amortisation	−1,728	−165,755	164,027	−99.0
Other operating expenses	−22,997	−16,128	−6,869	42.6
Earnings before interest and taxes (EBIT)	**826,541**	**561,051**	**265,490**	**47.3**
Net income from companies measured at equity	49,817	0	49,817	n/a
Financial income	388	628	−240	−38.2
Financial expenses	−44,257	−32,109	−12,148	37.8
Result from the remeasurement of derivative financial instruments	−18,940	−7,904	−11,036	139.6
Earnings before taxes	**813,549**	**521,666**	**291,883**	**56.0**
Income taxes	−235,230	−210,720	−24,510	11.6
Net income	**578,319**	**310,946**	**267,373**	**86.0**
Other comprehensive income (OCI)	893	489	404	82.6
Total comprehensive income	**579,212**	**311,435**	**267,777**	**86,0**

The net operating income from letting activities was EUR k 209,331 in 2019 and was EUR k 12,605 higher than in the previous year due to the acquisition of a property and the more profitable operational management of the property portfolio. Rental income developed as follows:

Rental income

in EUR k



At EUR k 638,366, the result from the remeasurement of investment property was EUR k 85,482 higher than in 2018. The outstanding development of the property portfolio's value reflects the positive development of market rents predominantly in Berlin and in the office asset class. Progress in investment projects and the successful conclusion of new rental agreements also had a positive effect on the value.

Compared to the same period in the previous year, the result from the disposal of properties increased by EUR k 12,700 to EUR k 20,533. Essentially, it comprises remeasurements of a higher volume of sold properties than in 2018.

The other operating income of EUR k 1,756 was lower than in the previous year, due largely to lower prior-period income.

In the 2019 financial year, personnel expenses increased by EUR k 2,215 to EUR k 18,720 due to the increased number of employees and individual salary adjustments. Higher expenses resulting from the LTI scheme also had an effect.

Depreciation and amortisation mainly comprised expenses from the impairment of goodwill in 2018.

Compared to the same period in the previous year, other operating expenses increased by EUR k 6,869 to EUR k 22,997. This increase was due primarily to consulting costs in connection with the planned merger with Aroundtown as well as property transactions.

The net income from companies measured at equity of EUR k 49,817 was due to the proportional annual profit of Aroundtown.

In 2019, financial expenses increased by EUR k 12,148 compared to the previous year, reaching EUR k 44,257. In particular, this was due to additional interest expenses for the bonds issued in May and September 2019 as well as expenses for the premature repayment of loans and interest rate hedges in connection with the optimisation of the financing structure.

In the 2019 financial year, there were expenses of EUR k 18,940 from the remeasurement of derivative financial instruments (previous year EUR k –7,904). The negative result is due primarily to changing market interest rates and the resulting market valuation of interest rate hedges on the loans.

The income taxes comprise ongoing income taxes of EUR k 13,324 and deferred taxes of EUR k 221,906. The increase in deferred tax expenses was due primarily to the higher remeasurement of investment property.

2.3.2 Cash flows

Cash flow statement

The following cash flow statement was generated using the indirect method under IAS 7. The proceeds and cash paid in the 2019 financial year resulted in an increase in cash and cash equivalents, due primarily to the issuance of two bonds and one hybrid bond, each with a nominal value of EUR k 600,000. The acquisition of the shares of Aroundtown totalling EUR k 1,530,208 in September 2019 was the most significant line item with the opposite effect.

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018	Change	Change in %
1. Net cash flow from operating activities	**131,922**	**130,011**	**1,911**	**1.5**
2. Cash flow from investing activities	−1,554,015	−129,751	−1,424,264	n/a
3. Cash flow from financing activities	1,792,150	−47,843	1,839,993	n/a
Net change in cash and cash equivalents	**370,057**	**−47,583**	**417,640**	**n/a**
Cash and cash equivalents at beginning of period	153,893	201,476	−47,583	−23.6
Cash and cash equivalents at end of period	**523,950**	**153,893**	**370,057**	**240.5**

The net cash flow from operating activities increased by EUR k 1,911 compared to the previous year and was EUR k 131,922 in the 2019 financial year, due primarily to higher current surpluses from letting activities.

The negative cash flow from investing activities of EUR k 1,554,015 was largely influenced by the cash outflow of EUR k 1,530,208 for the acquisition of Aroundtown's shares, the cash paid for the acquisition of new properties and investments in existing properties totalling EUR k 139,966. Purchase prices were paid for office properties in Bonn and Berlin in the 2019 financial year.

The proceeds from the disposal of properties, which increased by EUR k 42,948 to reach EUR k 67,973 in the reporting year, had the opposite effect, as did the proceeds of EUR k 66,490 from the disposal of subsidiaries which held properties.

In particular, the cash received from property disposals was attributable to the Aronia retail portfolio, two residential and commercial buildings in Rostock, the government services building in Gera, "Falke Forum" in Chemnitz and the commercial property "Plastic Logic" in Dresden.

The cash received from the disposal of subsidiaries which held properties was attributable to the net total from the disposal of a retail portfolio less the loan taken out by the buyer and other line items resulting from the disposal of the companies.

Essentially, the positive cash flow from financing activities was due to the issuance of the three bonds in May and September 2019, each with a nominal value of EUR k 600,000, as well as a capital increase in June 2019 which generated gross proceeds of EUR k 222,092. The repayment of loans totalling EUR k 143,990 as part of the optimisation of the financing structure and the payment of a dividend of EUR k 94,140 to the shareholders had the opposite effect.

Overall, due to the aforementioned cash flows in 2019, the cash and cash equivalents increased by EUR k 370,057 to EUR k 523,950.

The cash and cash equivalents consisted entirely of liquid funds. In the reporting year, the liquidity of TLG IMMOBILIEN was secure at all times.

2.3.3 Net assets

The following overview summarises the asset and capital structure. Liabilities and receivables due in more than one year have all been categorised as non-current.

in EUR k	31/12/2019	31/12/2018	Change	Change in %
Investment property/prepayments	4,709,615	4,067,550	642,065	15.8
Shares in companies measured at equity	1,580,641	0	1,580,641	n/a
Other non-current assets	34,880	31,688	3,192	10.1
Financial assets	18,098	13,517	4,581	33.9
Cash and cash equivalents	523,950	153,893	370,057	240.5
Other current assets	35,125	54,199	−19,074	−35.2
Total assets	**6,902,309**	**4,320,847**	**2,581,462**	**59.7**
Equity	3,446,647	2,157,239	1,289,408	59.8
Non-current liabilities	2,606,254	1,489,621	1,116,633	75.0
Deferred tax liabilities	697,209	480,489	216,720	45.1
Current liabilities	152,199	193,498	−41,299	−21.3
Total equity and liabilities	**6,902,309**	**4,320,847**	**2,581,462**	**59.7**

At EUR k 4,709,615, the asset side is dominated by investment property as well as prepayments made towards them. The increase of EUR k 642,065 compared to the previous year is due primarily to measurement gains.

The development of investment property is largely the result of fair value adjustments (EUR k 638,366), acquisitions (EUR k 88,419), the capitalisation of construction activities (EUR k 52,284) and reclassifications as assets held for sale (EUR k −155,947).

Compared to the previous year, the proportion of investment property in the total assets has decreased from 94% to 68%. This was due to the acquisition of 15% of the shares of Aroundtown SA, Luxembourg for EUR k 1,580,641 which are recognised as shares in companies measured at equity, as well as the strong liquidity resulting from the bonds issued in September 2019.

Compared to the previous year, the equity of the Group has increased by EUR k 1,289,408 to EUR k 3,446,647. Essentially, this was due to the issuance of a hybrid bond in September 2019 with a nominal value of EUR k 600,000, a capital increase in late June 2019 which generated gross proceeds of EUR k 222,092 and the net income of EUR k 578,319. The payment of a dividend of EUR k 94,140 had the opposite effect.

in EUR k	31/12/2019	31/12/2018	Change	Change in %
Equity	3,446,647	2,157,239	1,289,408	59.8
Total equity and liabilities	6,902,309	4,320,847	2,581,462	59.7
Equity ratio in %	**49.9**	**49.9**	**0.0 pp**	

The equity ratio remained unchanged from the previous year at 49.9%.

Overall, the liabilities of the TLG IMMOBILIEN Group have increased by EUR k 1,292,054 or 60%.

The non-current liabilities excluding deferred taxes which essentially comprised liabilities due to financial institutions and corporate bonds as at the reporting date increased by EUR k 1,116,633 in the 2019 financial year. The main driver of this was the bonds issued in May and September 2019, each with a nominal value of EUR k 600,000.

The significant increase in deferred tax liabilities in the reporting year was largely characterised by the highly positive development of the value of the property portfolio.

Current liabilities decreased by EUR k 41,299. Due to the maturity structure of the loans, the current liabilities due to financial institutions have decreased significantly compared to the previous year as at 31 December 2019.

2.3.4 Financial performance indicators

FFO development

Funds from operations (FFO) are a key performance indicator for the TLG IMMOBILIEN Group.

FFO is a key indicator used by real estate companies with properties to judge their long-term profitability and performance in the capital market environment. The figure is essentially the result of the net income for the period adjusted for the results from disposals, property measurement and the measurement of derivative financial instruments, deferred taxes and extraordinary items.

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018	Change	Change in %
Net income	**578,319**	**310,946**	**267,373**	**86.0**
Income taxes	235,230	210,720	24,510	11.6
EBT	813,549	521,666	291,883	56.0
Result from the disposal of properties	−20,533	−7,833	−12,700	162.1
Result from the remeasurement of investment property	−638,366	−552,884	−85,482	15.5
Result from the remeasurement of derivative financial instruments	18,940	7,904	11,036	139.6
Depreciation and amortisation	1,728	165,755	−164,027	−99.0
Net income from companies measured at equity	−49,817	0	−49,817	n/a
Dividend from investments	17,167	0	17,167	n/a
Attributable to non-controlling interests	−1,146	−1,265	119	−9.4
Net income attributable to hybrid capital providers	−5,049	0	−5,049	n/a
Other effects[1]	16,080	4,083	11,997	293.8
Income taxes relevant to FFO	−4,577	−3,436	−1,141	33.2
FFO	**147,976**	**133,990**	**13,986**	**10.4**
Average number of shares outstanding in thousands[2]	107,811	102,842		
FFO per share in EUR	**1.37**	**1.30**	**0.07**	**5.4**

[1] The other effects include
(a) personnel restructuring expenses (EUR k 1,094; previous year EUR k 1,512),
(b) transaction costs (EUR k 11,233; previous year EUR k 2,549),
(c) refinancing costs/repayment of loans (EUR k 3,753; previous year EUR k 22).

[2] Total number of shares as at 31 December 2018: 103.4 m, as at 31 December 2019: 112.1 m.
The weighted average number of shares was 102.8 m in 2018 and 107.8 m in 2019.

FFO was EUR k 147,976 in 2019. The increase by 10.4% or EUR k 13,986 compared to the previous year is due predominantly to the higher net operating income from letting activities and the dividend from investments. This resulted from the acquisition of the shares of Aroundtown in the third quarter of 2019 and corresponds to the proportional value of the dividend forecast for 2019 based on the amount of time they were held in the financial year and the number of shares. Higher financial expenses due largely to the bonds issued in 2019 had the opposite effect, as did the proportion of net income attributable to the hybrid capital providers. The net income attributable to hybrid capital providers resulting from the issuance of a hybrid bond in September 2019 is also deducted from earnings in order to calculate FFO as these funds cannot potentially be paid out to the shareholders of TLG IMMOBILIEN.

Despite the larger number of shares, FFO per share was higher than in the previous year at EUR 1.37. The number of shares has increased due to the capital increase over the course of the reporting year and the newly issued shares of TLG IMMOBILIEN AG as part of a swap for WCM shares (due to the settlement offer under the control agreement concluded by both companies).

In the 2018 financial year, TLG IMMOBILIEN forecast that its FFO in 2019 would be between EUR 140 m and EUR 143 m. This forecast was most recently revised upwards to around EUR 147 m in the Q3 financial report. As FFO reached EUR 148.0 m, the forecast for 2019 was met.

Net Loan to Value (Net LTV)

As a ratio between net debt and real estate assets and investment assets, the Net LTV is another internal key performance indicator for the company.

in EUR k	31/12/2019	31/12/2018	Change	Change in %
Investment property (IAS 40)	4,707,397	4,067,527	639,870	15.7
Advance payments on investment property (IAS 40)	2,218	23	2,195	n/a
Owner-occupied property (IAS 16)	8,119	8,104	15	0.2
Non-current assets classified as held for sale (IFRS 5)	3,018	33,080	–30,062	–90.9
Inventories (IAS 2)	734	737	–3	–0.4
Shares in companies measured at equity	1,580,641	0	1,580,641	n/a
Real estate assets and investment assets	**6,302,127**	**4,109,471**	**2,192,656**	**53.4**
Interest-bearing liabilities	2,621,574	1,579,442	1,042,132	66.0
Cash and cash equivalents	523,950	153,893	370,057	240.5
Net debt	**2,097,624**	**1,425,549**	**672,075**	**47.1**
Net Loan to Value (Net LTV) in %	**33.3**	**34.7**	**–1.4 pp**	
Net debt plus hybrid bond	**2,688,468**	**1,425,549**	**1,262,919**	**88.6**
Adjusted Net Loan to Value (Net LTV) in %	**42.7**	**34.7**	**8.0 pp**	

The Net LTV was 33.3% in the Group by 31 December 2019. It has declined by 1.4 percentage points compared to the same period in the previous year, due primarily to the acquisition of Aroundtown's shares by means of bonds issued in September 2019 and the positive development of the value of investment property.

Due to the hybrid bond issued in September, this report also contains an adjusted Net LTV which factors this financial instrument – which is recognised as equity in the consolidated financial statements – into the net debt as liabilities. As at the reporting date, the adjusted net LTV was 42.7%.

As such, it was within the long-term ceiling of 45% for the Net LTV announced most recently in the 2018 annual report.

EPRA Net Asset Value (EPRA NAV)

The EPRA Net Asset Value (EPRA NAV) is another key performance indicator of TLG IMMOBILIEN. It discloses a net asset value on a consistent basis that can be compared with other companies.

in EUR k	31/12/2019	31/12/2018	Change	Change in %
Equity of the shareholders of TLG IMMOBILIEN	2,833,787	2,133,924	699,863	32.8
Fair value adjustment of fixed assets (IAS 16)	26,658	17,168	9,490	55.3
Fair value adjustment of real estate inventories (IAS 2)	1,182	1,182	0	0.0
Fair value of derivative financial instruments	25,700	8,604	17,096	198.7
Deferred taxes	775,808	554,845	220,963	39.8
EPRA Net Asset Value (EPRA NAV)	**3,663,135**	**2,715,723**	**947,412**	**34.9**
Number of shares in thousands	112,073	103,385		
EPRA NAV per share in EUR	**32.69**	**26.27**		

The EPRA NAV was EUR k 3,663,135 in the 2019 financial year, which equates to an EPRA NAV per share of EUR 32.69. The EPRA NAV has increased by EUR k 947,412 compared to 31 December 2018.

Essentially, the increase was due to the high net income for the period of EUR k 578,319 which was largely influenced by the highly positive development of the value of the property portfolio and the successful course of business, as well as the capital increase on 27 June 2019, which generated gross proceeds of EUR k 222,092. The payment of a dividend of EUR k 94,140 to the shareholders had a significant opposite effect.

2.3.5 Non-financial performance indicators

TLG IMMOBILIEN only uses non-financial performance indicators to manage the company indirectly. The management is aware that the satisfaction of tenants and employees as well as the company's good reputation as a reliable partner in the real estate sector are extremely important factors for long-term success in the market.

As at 31 December 2019, TLG IMMOBILIEN had 158 employees (previous year 132), not including trainees or inactive contracts. The increase in the number of employees is due primarily to the recruitment of new employees.

It is the stated objective of the company to qualitatively and quantitatively strengthen its team by recruiting specific personnel. In 2019, the company recruited 43 new members of staff. The average length of service at TLG IMMOBILIEN is around 8.7 years.

The further professional and personal development of staff is a key component of personnel management. In order to expand the knowledge and skills of its personnel, the company promotes advanced training courses and occupational studies, and regularly organises specialised workshops designed to refresh its employees' knowledge.

TLG IMMOBILIEN AG also trains its staff for its own requirements. In the future, the company will continue to provide cooperative education in business administration, especially with a focus on the real estate sector and apprenticeships.

TLG IMMOBILIEN is committed to providing its employees with optimal working conditions in well-equipped, convenient locations. Flexible working hours, home office opportunities and voluntary benefits such as job tickets, health days, food allowances and discounts on sports club memberships are just as much a part of what the company provides as a value-oriented corporate culture.

In 2019, TLG IMMOBILIEN AG carried out an employee survey for the fourth time. The high rate of participation signals the interest of the staff in continuing to help actively shape the development of TLG IMMOBILIEN AG. The majority of its employees see TLG IMMOBILIEN AG as an extremely attractive employer and are proud of their company. Almost all employees are aware of how they are contributing to the overall success of the company. Overall, the perceived attractiveness of TLG IMMOBILIEN as an employer by its employees has increased further compared to the previous year.

TLG IMMOBILIEN traditionally maintains good long-term relationships with its tenants. This is reflected in long-term rental agreements with stable rental income. Regional employees in TLG's offices in Berlin, Frankfurt/Main, Dresden, Erfurt, Leipzig and Rostock ensure that tenants receive support on site. They possess extensive market experience and have close ties with numerous private and institutional market players. This allows TLG IMMOBILIEN to present itself consistently as a reliable partner to its existing tenants, potential tenants, investors and local authorities.

TLG IMMOBILIEN is an active member of the German Property Federation (ZIA), Germany's leading property federation, which is also represented in the Federation of German Industry (BDI).

It remains a member of the European Public Real Estate Association (EPRA) in order to support the promotion, development and representation of the European public real estate sector.

Additionally, TLG IMMOBILIEN is a member of the German Corporate Governance Initiative (Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V.). Its objective is to codify the principles of the German Corporate Governance Code for the real estate industry and therefore anchor value-focused management guided by professionalism, transparency, integrity and sustainability.

3. REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

3.1. RISK AND OPPORTUNITY REPORT

3.1.1 Risk management system

TLG IMMOBILIEN operates in an economic environment characterised by considerable dynamism and complexity. These tie in with frequently changing general economic, technological, political, legal and social conditions which can make it more difficult to meet targets or pursue long-term strategies. However, business opportunities can also arise. TLG IMMOBILIEN AG has a risk management system in place to enable early detection, monitoring and assessment of the risks typical for the industry. This meets the legal requirements (AktG, KonTraG) as well as the requirements of the Corporate Governance Code.

This system continuously assesses and monitors risks in order to counter ominous developments before they occur. The risk management system monitors and assesses the risks in processes, and the internal auditors monitor and assess the general risks. Suitable adjustments are made when the general situation changes. The auditor also audits the early risk detection system together with the annual financial statements in accordance with Sec. 317 (4) HGB.

A holistic risk management system is now in place throughout the TLG IMMOBILIEN Group. In this regard, the risks in the WCM sub-group are identified and assessed separately by the risk officers, making it possible to report and aggregate the risks for the WCM sub-group separately.

As an integral component of all corporate processes, the risk management system follows an iterative cycle with the following processes:

- Risk identification
- Risk analysis and quantification
- Risk communication
- Risk management
- Risk control

Risk identification

Risks are identified in the departments of TLG IMMOBILIEN using the "bottom up" method. The risk situation from the perspectives of the various departments and to which TLG IMMOBILIEN as a whole is exposed is assessed, discussed and summarised by risk management and the risk officers.

Using the summarised information provided by the risk officers, the risk management of TLG IMMOBILIEN then compiles an inventory of risk by grouping the individual risks into risk types.

In terms of organisation and human resources in the field of controlling, the risk management is based at the main offices of TLG IMMOBILIEN. However, the various departments of the Group are also involved due to the expertise required to deal with the major risk factors on a daily basis.

Besides the risk officers, all employees of the company are obliged to immediately submit an urgent risk report – together with substantial proposed measures – to the risk managers and Management Board if they should become aware of any extraordinary circumstances.

Risk analysis and quantification

All risks were assessed on a quarterly basis, with a risk horizon of twelve months and on the basis of the potential loss and probability of occurrence. The probability of occurrence was quantified as follows:

- Negligible: 0 to 10%
- Low: > 10 to 25%
- Medium: > 25 to 50%
- High: > 50%

The potential losses were categorised as follows:

- Negligible: up to EUR 0.3 m
- Low: > EUR 0.3 m to EUR 1.0 m
- Medium: > EUR 1.0 m to EUR 5.0 m
- High: > EUR 5.0 m to EUR 10.0 m
- Very high: > EUR 10.0 m

The reference values for the estimation of each loss were derived from the business plan.

The loss categories and probabilities of occurrence produce a 16-field matrix. This matrix converts the analysis into a specific amount of damage, i.e. the value at risk. The value at risk of TLG IMMOBILIEN is calculated by the risk management by aggregating the various risk types. Risks with an extremely high potential loss in excess of EUR 10.0 m are outside of the 16-field matrix and are monitored particularly closely.

The changes to the aggregate total risk of TLG IMMOBILIEN (the value at risk) are measured in line with IFRS in the equity of the TLG IMMOBILIEN Group, on a quarterly basis, relative to the last quarterly or annual financial statements. Covenant agreements, which are a component of many loan agreements of TLG IMMOBILIEN, are taken into consideration. These agreements normally set out a minimum equity ratio which the company must maintain.

The aggregate value at risk was always lower than its reference value in the financial year. The existence of the company was not in jeopardy during the financial year.

Risk communication

Besides an annual risk report on the development of each risk in the financial year ended, the Management Board of TLG IMMOBILIEN receives quarterly reports on the risk situation of the company. These reports cover all risk types. Any urgent risk reports that were filed are brought to the attention of the Management Board immediately and documented in the monthly control report.

The quarterly report contains information on the aggregate value at risk as well as key changes in significant risks. Significant risks include risks with medium, high or very high potential losses and probabilities of occurrence.

Risk management
Measures designed to avoid, prepare for, limit, reduce, pass on or compensate for risks are an active component of the risk management system.

The conception of risk-reducing measures is an important component of the risk management system of TLG IMMOBILIEN. These measures and their degree of success are documented.

Risk control
The plausibility of changes to the estimated risks is examined by risk management. On an annual basis, the central risk management checks the suitability of the existing risk management system for the business model of TLG IMMOBILIEN. If necessary, conceptual changes and developments take place.

The internal auditors ensure that the documentation, assessment and reporting processes of the risk management system are effective and in order. If any process should prove to be unsatisfactory, recommendations are made on how to proceed.

A scheduled audit of the risk management system was carried out in the 2019 reporting year.

3.1.2 Risk report and individual risks
The business activity of TLG IMMOBILIEN has intrinsic risks of a general economic nature as well as risks specific to the real estate sector. In the environment of the capital and property markets, TLG IMMOBILIEN is exposed to risks over which it has no control. Such risks are dependent on various geopolitical and economic developments that might, for example, affect interest rates, inflation, general legal conditions, rents or demand in the transaction market. In turn, this can result in far-reaching changes to, among other aspects, property values, the letting situation, transaction volumes and liquidity.

In the following, individual risks will be described as a part of the risk management system which can have significant influence on the net assets, cash flows and financial performance of the Group. The risks have been separated into property-specific and company-specific risks.

As the Group has a uniform risk management system, the risks for the 2019 financial year also include matters attributable to both TLG IMMOBILIEN and the WCM sub-group.

Property-specific risks
Transaction risk
Besides the efficient operational management and development of the property portfolio, active portfolio management entails the strategic expansion and optimisation of the portfolio through acquisitions and disposals. If planned property acquisitions do not come to pass, there is a risk of additional management or unplanned consequential costs. Additionally, a risk can arise if purchase agreement obligations are not fulfilled or prove disadvantageous to TLG IMMOBILIEN in sales processes. Purchase agreements can give rise to a bad debt risk when, for example, procedural costs are incurred in connection with unwinding, or interest losses occur due to the delayed receipt of capital.

Risks can arise as part of property acquisitions if concealed defects in the property are not identified or contractual agreements are entered into that lead to additional expenditure. Likewise, if the acquisition falls through, the costs incurred by the acquisition process so far are at risk of being wasted.

To avoid or reduce marketing risks, the Group carries out real estate transactions using standard general process steps. These include the removal of obstacles preventing sales, the procurement of permits and the identification of contaminated sites and pollution, as well as reasonable due diligence during acquisitions. The transaction teams have at their disposal standard contracts to use as a basis for purchase contract negotiations. Acquisitions are subject to a predefined framework of strategic acquisition criteria and operative implementation requirements, for example in the form of comprehensive due diligence processes. As at the reporting date, the potential loss of transaction risks was considered medium. Given the current market situation and the increasingly difficult acquisition process, the probability of occurrence is considered medium.

Bad debt from sales and leasing

TLG IMMOBILIEN has a high-quality portfolio of properties and generates stable cash flows from rental income. Significant impairment of the cash flows, and thus also the cash flows and financial performance of the company, can arise from a loss of payments from important anchor tenants or insolvency on their part. Contractual partners are selected carefully in order to minimise the payment risk in a preventive manner. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used when necessary. Structured claims management is used to counter potential bad debt. The bad debt risk generally has a high potential loss. Its probability of occurrence is considered medium.

Vacancy risk

The vacancy risk is that new rental agreements and extensions of rental agreements cannot be agreed at standard market rates. It is subject to economic fluctuations and market cycles which affect market rents and demand for space in particular. Such a development can have a negative effect on the letting situation and consequently on the planned development of the net operating income from letting activities as well as the funds from operations. TLG IMMOBILIEN minimises this risk by closely monitoring the market with extensive analyses of renting statistics (the preparation of market reports), continuously monitoring expiring rental agreements, regularly consulting real estate brokers, entering into long-term rental agreements and maintaining a presence on social media. Measures designed to avoid or minimise the risk also include the punctual identification of expiring rental agreements and taking tenant requirements into consideration in order to secure a contractual extension. As the majority of the properties in the portfolio of TLG IMMOBILIEN are managed by employees of the Group, the company is in close contact with its tenants. Disposals of non-strategic properties are also intended to minimise the risk. As at the reporting date, both the potential loss and probability of occurrence remain low.

Environment and contaminated sites

The risk of contaminated sites and the environmental risk are of significance in terms of the potential loss. For example, properties which prove to have contaminated sites – which were previously unknown – will lead to additional unexpected expenses in connection with removing any danger to public order and safety in line with the current laws and regulations. This also includes the risk under Sec. 4 (6) of the German Federal Soil Protection Act (BBodSchG). Under the Federal Soil Protection Act, as the previous owner of a plot of land, TLG IMMOBILIEN is obliged to redevelop the land if ownership thereof was transferred after 1 March 1999 and if TLG IMMOBILIEN was or had to have been aware of harmful soil changes or contamination (eternal liability). This is also the case if the current owner cannot be called on to redevelop the land due to a lack of assets. In general, there are public declarations of exemption for environmental contamination of land in the portfolio of TLG IMMOBILIEN caused before 1 July 1990; therefore, the company is not exposed to any significant risks. Environmental contamination caused after 1 July 1990 has either been factored into the measurement of the property (thus reducing its value) or is not considered significant. If an environmental or pollution risk should arise, this could potentially have a significant influence on the net assets, cash flows and financial performance of the company. The potential loss of the environmental risk and the risk of contaminated sites is still considered very high, yet the probability of occurrence is considered negligible.

Operational management

Operational management encompasses the risks resulting from operating costs to be borne by TLG IMMOBILIEN, from maintenance and from failure to maintain safety in the properties.

By continuously analysing contractual conditions with suppliers and service providers, TLG IMMOBILIEN strives to counter the potential risk of operating costs. In the reporting year, the company continues to consider both the potential loss and probability of occurrence medium.

The risk that necessary maintenance measures cannot be completed on time, thus resulting in unforeseen disruptions to technical or structural equipment, is always a factor. If defects are identified late or not at all or if the need for maintenance is inaccurately gauged, this can result in higher expenses than expected, which will affect the financial performance of the company. To minimise this risk, the properties are regularly inspected by employees or technicians who can promptly identify any defects and hold a regular dialogue with each tenant. As at the reporting date, the potential loss of the risk was considered medium. Due to the takeover of sub portfolios which have so far been managed externally from 2020 onwards, there is a risk that an unexpected or as yet unknown need for maintenance will be identified. As such, the probability of occurrence is also considered medium.

The risk from failure to maintain safety arises if the owner of the property fails to fulfil its duty to secure local sources of danger that might illegally damage the life, health, freedom or property of another person. The regular inspections also allow TLG IMMOBILIEN to fulfil its duty to maintain safety on the premises. Due to ongoing construction measures, the potential loss is still considered high although the probability of occurrence is negligible.

Investments

TLG IMMOBILIEN pursues an investment strategy which continuously optimises and increases the value of its property portfolio through renovations for tenants, modernisation measures and, to a certain extent, new builds. New and contemporary usage concepts that will remain consistent with the market in the long term also are being tested and selected development projects on land in the portfolio are being implemented on the basis of plots of land with the potential for development. Such investment activities can involve risks of overspending, delayed completion, structural defects and the loss of construction crew contractors. Furthermore, official formalities can pose a risk to the progress of development projects. TLG IMMOBILIEN will counter these risks by continuously checking the creditworthiness and reliability of construction companies and business partners and by hedging with guarantees. The implementation entails extensive project management, regular inspections on site, consistent follow-up management, strict deadline management and regular meetings with the relevant authorities in order to ensure that the implementation remains on schedule.

The opportunity to claim subsidies (e.g. investment subsidies and grants) occasionally arises as part of investments in real estate. If a subsidy is accepted but its conditions are not met, repayment claims can be filed against the recipient of a subsidy in subsequent years. Therefore, TLG IMMOBILIEN regularly checks to ensure that it is meeting the conditions of ongoing subsidy agreements. If such a risk materialises, it can have a negative impact on the net assets, cash flows and financial performance of the company.

The potential loss has been upgraded to very high due to the intensification of development project activities. In contrast, the probability of occurrence has been downgraded from medium to low due to arrangements and negotiations with business partners and authorities.

Property measurement

The fair value of the property portfolio is subject to fluctuations caused by external and property-specific factors. Key external factors with significant influence over measurement gains and losses are the market rent and interest rates, as well as the general demand for properties as an asset class. Property-specific factors primarily encompass the renting situation and the condition of the property. Even a small deviation from the previous market value of the property portfolio generates a very high potential absolute loss and can have a considerable impact on the statement of comprehensive income and significantly impair the net assets of the company.

The property portfolio is regularly and systematically evaluated by independent external experts in order that problematic developments can be identified as quickly as possible. In order to reduce the measurement risk, TLG IMMOBILIEN also carries out tenant-oriented property management and performs necessary renovations and other technical measures for tenants. In the 2019 financial year, the fair value calculation found no indications of a significant decrease in the value of the property portfolio.

Due to the currently good letting situation and the persistently favourable market conditions, the probability of occurrence of the property measurement risk remains medium.

Company-specific risks

Investment risk

The investment risk encompasses all risks resulting from not fully consolidated interests. It also encompasses risks in connection with fully consolidated interests of TLG IMMOBILIEN, provided that they cannot be allocated to any other risk type. This includes, for example, risks posed by complex investment structures which require increased transparency and management in order to preclude negative effects on the course of business of the Group. Additionally, risks can arise if administration or management services are rendered externally or if corrections need to be made to the statement of financial position, especially as a result of share deals. TLG IMMOBILIEN can counter the investment risks by defining external management services and integration responsibilities with clear processes. Comprehensive due diligence and impairment testing can minimise the likelihood of the statement of financial position requiring correction.

For the first time, the investment in Aroundtown SA has given rise to risks that are not limited to companies within the Group. A change in the value of Aroundtown's shares can have a significant impact on the net assets of the company. The financial figures prepared in accordance with IFRS and capital market standards (in particular the EPRA NAV), the market's estimated value of the company reflected by its share price and the supervisory role it plays by having a representative on the management board of Aroundtown are important factors with regard to Aroundtown and affect the stability of the value of Aroundtown's shares.

The potential loss of the risk remains very high and its probability of occurrence is considered medium.

Financing

The strategy of TLG IMMOBILIEN is focused on growth and as such may require additional equity measures and loans in future. The conditions and the availability of financing depend significantly on the changes in interest rates and the general banking and market environments. Thus, higher financing costs may arise for the company in connection with external financing instruments if, for example, fixed interest rates are agreed at the wrong time or not at all. Financial risks can result from the transaction costs of equity and external financial instruments if, in spite of preparations, they fail to materialise or if the actual transaction costs are higher than expected. Likewise, if the markets in which the banks operate begin to slow down, this could make banks more cautious about providing finance or cause them to increase their rates. Changes in the general conditions can negatively affect the cash flows and financial performance of the company.

Other financing risks might arise if the contractual terms of finance agreements (e.g. covenants), terms and conditions of capital market measures or ratings figures are not adhere to. The company covers the risk of a breached covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. No significant covenants were breached in the reporting year.

The probability of occurrence is considered medium, yet the potential loss has been identified as negligible due to the persistently low interest rates.

Due to the moderate debt ratio with regard to the fair value of the properties, TLG IMMOBILIEN continues to consider itself fully eligible for financing, even for more restrictive loan conditions.

Liquidity

The management of the Group pays attention to the risk of being unable to fulfil payment obligations on time. In order to analyse future changes in liquidity, a liquidity forecast for at least six months is created for the expected cash flows and updated on a regular basis. In the reporting year, the liquidity of TLG IMMOBILIEN was secure at all times. However, future liquidity shortages – e.g. due to unfavourable developments of macroeconomic factors – cannot be completely ruled out, which could result in negative effects on the cash flows and financial performance of the company. The liquidity reserves of the company increased significantly due to the successful capital market measures in the reporting year. As such, the probability of occurrence and potential loss of a potential liquidity shortage can be downgraded to low.

In the context of the merger with Aroundtown, there is generally a risk that diverse banks and the holders of the bond which matures in 2024 exercise a special right of termination (due to a change of control) and cause the liabilities to mature. For more information, see section H.14 of the notes.

Tax risk

The tax risk is the danger that unforeseen matters or incorrect tax documents affect the tax burden and thus the results and liquidity of the company. This applies to turnover and income tax in particular and includes the potential impact of the risk of changes to tax laws. During past audits, the financial authorities have never detected any omitted matters which could increase the tax burden of the company. The utilisation of a tax option requires that TLG IMMOBILIEN meet certain legal requirements in future periods as well so as to profit from the positive tax effects. If these statutory requirements are not met, the potential loss of the tax risk, including the potential loss from changes to the German Real Estate Transfer Tax Act (GrEStG) as part of a real estate transfer tax reform with regard to share deals, was considered very high as at the end of the financial year, although the probability of occurrence is considered negligible.

Legislative risk

The business activities of TLG IMMOBILIEN are affected by changes in the legal framework and to regulations. Fundamental changes in the legal framework, e.g. in landlord and tenant legislation, can lead to financial risks or increased expenses and therefore affect the cash flows and financial performance of the company. As there is no recognisable concrete, quantifiable risk from impending and/or expected changes to legislation or regulations, this risk has not been changed compared to the previous year and has been classified as having a negligible probability of occurrence and a medium potential loss.

Personnel

Competent and motivated employees are essential to the success of TLG IMMOBILIEN. TLG IMMOBILIEN strengthens its attractiveness as an employer and counters any potential risk from insufficient personnel with measures such as performance and potential analyses to illustrate development perspectives, a performance-based remuneration system and additional benefits, as well as professional development opportunities. Another risk is that additional direct or indirect personnel expenses occur if employees do not meet expectations in terms of quality or quantity or are absent for extended periods due to illness. If skilled, committed and motivated employees and managers cannot be found, trained and retained, this can have a negative effect on the development of the company. The risk of unexpected employee turnover has increased for TLG IMMOBILIEN due to the announced merger with Aroundtown SA in particular. The company considers the potential loss low and the probability of occurrence medium.

Costs of litigation and deadlines

TLG IMMOBILIEN generally faces the risk that the costs of legal disputes, legal advice, contract reviews and comparisons will increase more than expected. Additionally, it faces the risk that deadlines are not adhered to. Provisions have been established against risks from ongoing litigation. Deadlines are documented in a litigation database and in a separate calendar. These deadlines are monitored regularly.

Following the takeover of WCM, a risk emerged of an ongoing legal challenge in connection with the control agreement entered into with WCM. The expected expenses have been factored into the net income for the period in the reporting year. Furthermore, the action was rejected by the court of first instance in the reporting year. In light of this, the potential loss and probability of occurrence remain negligible.

Press and image

The business activities of TLG IMMOBILIEN can be impeded by negative representations in the media to such an extent that the revenue of the company is jeopardised. This can damage the TLG IMMOBILIEN brand and lower the price of its shares. The public image of TLG IMMOBILIEN is to be strengthened and improved, predominantly by means of media communication and transparency in the market, i.e. with regard to property transactions and increased leasing. Due to the positive image of TLG IMMOBILIEN on the capital market and the careful preparation of documents due to be published, the probability of damage to the image of the company continues to be considered negligible, although the potential loss is very high.

Data and IT risks

All aspects of business require the careful use of data. As data are entered into a variety of IT systems, the data can be falsified, deleted or wrongly interpreted due to application errors, the failure to follow bookkeeping and/or work instructions, interference by third parties or external influences. Even an IT system migration can lead to significant defects in data and in turn inaccurate conclusions for internal and external reports when the data are processed. This can lead to massive disruptions in the course of business and cause unfavourable conclusions to be drawn and decisions to be made. Likewise, the data in databases are at risk of falling into the wrong hands and being misused to the detriment of TLG IMMOBILIEN. This can lead to negative effects on the business activities of the company. The risk concerns both internal confidentiality and protection against external third parties. The risk therefore concerns the entirety of the data protection regulations, both technical and organisational, as well as the general misuse of data.

In order to reduce this risk, access privileges are regularly inspected and regular plausibility checks are carried out. The company also has detailed procedures and guidelines. The IT system used for accounting purposes is audited by the auditor on an annual basis as part of the audit of the consolidated financial statements and annual financial statements.

Following the successful launch of the ERP system SAP S4 HANA, the potential loss of the data quality risk was downgraded from very high to high. The probability of occurrence of the risk is now considered low.

With the entry into force of the European General Data Protection Regulation (GDPR) on 25 May 2018, the potential loss of data protection risks is very high in accordance with the maximum fines for data breaches prescribed by the GDPR. The probability of occurrence has increased slightly compared to the previous year as a fine was imposed on a real estate company for the first time in the reporting year. Nevertheless, it is considered negligible as an information security management system (ISMS) is in place. The preservation of confidentiality is a major component of this system. Other data protection measures such as secure passwords and a structured access privilege assignment and revocation process have been put in place gradually in connection with the introduction of a new EPR system as part of the ISMS and are applied consistently.

Internal and external offences

Internal and external offences lead directly to financial damage and/or losses through image damage. The damage ranges from damage caused by internal manipulation (e.g. fraud, embezzlement, theft of cash) to external cases of fraud such as the manipulation of sales, invitations to tender and the awarding of contracts. This also includes offences in connection with the company's position on the market (insider trading). Due to the dual-control principle which is applied to all transactions and the company's internal approval and control system, the potential loss and probability of occurrence are still considered negligible. Employees are regularly trained in issues of compliance.

Risks from force majeure

Instances of force majeure such as natural disasters, fires or flooding can cause damage to the property of TLG IMMOBILIEN which is not covered fully or in some cases at all by insurance. As protective measures in terms of fire prevention, burglary and theft prevention, regular data back-ups and insurance are in place to take this into account, the resulting risk is still considered negligible.

The coronavirus pandemic, which has been having an increasingly large impact in Germany since early March 2020 was not addressed specifically in the risk assessment as at 31 December 2019. Nevertheless, as at the preparation of the annual financial statements, the situation does pose risks to TLG IMMOBILIEN which could have a negative effect on the Group's net assets, financial position and cash flows.

These risks might affect the general operation of the company and, for example, have a significant impact on its business operations in the form of a large number of sick personnel, quarantines or a business closure by the authorities. Generally speaking, the Group possesses technical equipment which enables all employees to work from outside of the office and is therefore well prepared.

Additionally, the coronavirus pandemic could give rise to property-specific risks such as bad debt, a failure to conclude new rental agreements or changes to the market value of properties in the portfolio. TLG IMMOBILIEN does not currently expect the German economy to suffer lasting damage and therefore does not expect demand for commercial properties or lettable areas to decline.

Directly affected sectors such as the hotel industry, leisure industry and non-food retail account for approximately 25% of the annualised in-place rent overall and are therefore not a dominant element in TLG IMMOBILIEN's portfolio. Furthermore, the Group has sufficient liquidity reserves to compensate for a partial loss of rent even over an extended period of time.

Overall, the potential impact of the risks to TLG IMMOBILIEN arising from the coronavirus pandemic is considered very high, although their probability of occurrence is considered medium.

Overall, the Management Board does not consider the coronavirus pandemic a threat to the continued existence of the company.

3.1.3 Internal control and risk management system for the accounting process

The Management Board of TLG IMMOBILIEN is responsible for the proper preparation of the consolidated financial statements and the annual financial statements. To ensure their proper preparation, an accounting-related internal controlling and risk management system is required. The internal control and risk management system is designed to ensure that business events are correctly and completely accounted for and disclosed in accordance with legal requirements, generally accepted accounting principles, the International Financial Reporting Standards (IFRS) as well as internal guidelines, in order to give the readers of the consolidated financial statements and annual financial statements an accurate representation of the company. TLG IMMOBILIEN has set up an internal control system under observance of decisive legal guidelines and standards typical for the industry and a company of its size. The system comprises a variety of control mechanisms and is an essential component of the business processes. The control mechanisms are subdivided into integrated mechanisms and downstream controls. The integrated mechanisms include, for example, technical controls secured by the system, internal guidelines, the dual-control principle for high-risk business processes and the documentation of all business transactions. Moreover, regular downstream checks are carried out in the form of, among others, monthly internal reporting, analyses of significant items in the statement of profit or loss or the statement of financial position and budget checks.

All of the responsibilities as part of the accounting process are clearly defined. The accounting department is an expert partner for specialised issues and complex accounting matters, and it consults external expert advisers on individual issues if necessary. The dual-control principle – which features a clear separation of the roles of approval and execution – is a central element of the accounting process. The accounting process is supported by IT software which controls the privileges of the users in accordance with the requirements of the internal guidelines. The Group has central accounting and central controlling. The internal accounting and allocation regulations of the Group are regularly examined and, if necessary, adjusted.

The Group auditing department is an independent organisational unit and is not involved in the operative business activities. It monitors the compliance of processes and the effectiveness of the internal control and risk management system. This includes accounting processes and the operative business activities being examined in topic-oriented checks.

The auditor of the financial statements audits the risk management system and internal control system as part of the audit of the consolidated financial statements and annual financial statements. Amongst other things, the Supervisory Board and its audit committee are involved with the accounting process, the internal control system and the risk management system. They use the results of the auditor of the annual financial statements and the auditing department as a basis for monitoring the effectiveness of the internal control and risk management system, especially with regard to the accounting process.

3.1.4 Risk management in relation to the use of financial instruments

Dealing with risks as regards the use of financial instruments is regulated by guidelines at TLG IMMOBILIEN. In accordance with these guidelines, derivative financial instruments are used exclusively for hedging loans with variable interest rates and not for trading purposes. There is generally an economic hedging relationship between the underlying transaction and the hedging transaction.

For the purpose of risk monitoring and limitation, the market values of all interest rate hedges are assessed on a monthly basis. The risk of bad debt on the part of the banks with which the interest rate hedges were created is considered low, as all of the banks have a sufficiently high credit standing. The recognition of valuation units in the statement of financial position was discontinued in 2017.

As it is safely hedged against the variable cash flows, TLG IMMOBILIEN is exposed to a low liquidity risk.

3.1.5 General risk situation

The Management Board of TLG IMMOBILIEN considers the aggregate value at risk over the course of the 2019 financial year as typical. Compared to the previous year, the risk situation has remained stable. Suitable preventive and, if necessary, countermeasures were taken whenever risks with a medium, high or very high potential loss and probability of occurrence were identified.

None of the risks described above threaten the portfolio of TLG IMMOBILIEN, either individually or in their entirety.

3.1.6 Opportunity report

In recent years, TLG IMMOBILIEN has been able to increase the spread of its commercial property portfolio throughout Germany by taking over WCM Beteiligungs- und Grundbesitz-AG and through other acquisitions and establish itself as a leading company in the German commercial property market. As an active portfolio manager, the company has extensive networks in its core markets and possesses comprehensive market expertise. The deliberate proximity of the company's sites to each regional market allows for better access to tenants, institutional and private market participants, service providers and authorities. This paves the way for opportunities for the company to acquire and dispose of properties for the best possible prices with a view to optimising its portfolio.

By establishing a clear organisational structure adapted to the strategic expansion of TLG IMMOBILIEN and maintaining a local presence, the company is able to integrate newly acquired properties into its operational processes quickly and efficiently.

With regard to renting, TLG IMMOBILIEN ensures that demand for space from long-term, creditworthy tenants remains high by managing its property portfolio with a focus on its clients. This involves building modernisation measures such as adaptation to higher technological standards which in turn can present new opportunities in terms of lowering the volume of vacant space. Likewise, modernisation measures and renovations for tenants in the portfolio serve to increase client satisfaction and tie tenants to the company for longer. The long-term rental agreements in the portfolio of TLG IMMOBILIEN have an average remaining term of approx. 5.6 years.

The portfolio of TLG IMMOBILIEN contains diverse properties with the potential for additional space and development which can be realised through extensions or new builds in order to increase both the current income from the property and its market value. Ongoing and other planned development projects demonstrate that TLG IMMOBILIEN is actively seizing the opportunities of its portfolio through strategic investments.

The announced merger with Aroundtown SA, which was initiated in the light of an increasing yield compression, will create potential synergies in a range of areas which can have a positive effect on the course of business and the economic development of both companies. The merger to form one platform will create one of the leading holders of commercial properties in Europe. In particular, a better rating for the merged company can lead to substantial annual savings in connection with financial expenses and in turn to a considerable increase in the company's value.

Additionally, the merger could create potential on the operational and property levels. Essentially, operating synergies concern economies of scale and scope resulting from a larger portfolio that can lead to cost advantages and therefore have a positive effect on the key performance indicator FFO. Property-specific opportunities can arise from announced development projects as it might be possible to realise existing potential for development faster with the larger platform and the resources available to it.

The high degree of transparency of TLG IMMOBILIEN with regard to the capital market, investors and analysts will support the successful issuance of more financial products such as bonds on capital markets with a view to being able to operate with flexibility when it comes to implementing the growth strategy.

3.2 FORECAST REPORT

The forecasts in the forecast report are based on expectations. The development of TLG IMMOBILIEN depends on a number of factors, some of which cannot be controlled by the company. The forecasts of the forecast report represent the current expectations of the company. These forecasts are therefore subject to risk and uncertainty. The actual performance of TLG IMMOBILIEN may vary, either positively or negatively.

3.2.1 General economic conditions and property markets

Overall economy

According to the Federal Ministry for Economic Affairs and Energy (BMWI), the German economy was, despite a phase of weakness, not in crisis before the first effects of the coronavirus pandemic were felt in early March 2020. The BMWi expected GDP growth to recover to a positive 1% in 2020. Multiple factors were expected to contribute to this: Global trade was expected to accelerate again, causing German exports and related investments in particular to grow with it. Additionally, the domestic market was expected to be robust as private spending was driven by growing employment rates and higher wages. Furthermore, it was assumed that the German government would support the growth with stimuli such as higher child benefits and income tax relief.

In light of the current measures implemented to slow the spread of the coronavirus pandemic, the original forecasts which were based on the state of the market in late 2019 no longer apply to the next few months at the very least and will not apply without reservation thereafter due to the currently unforeseeable medium and long-term consequences of the coronavirus pandemic. Fundamentally, it is likely that the long-term consequences will prove less severe for the real estate industry than for other branches of trade as it is reasonable to assume that existing rental agreements will initially continue to exist and that expected bad debt will not threaten the existence of the company, at least in the short term.

Property market

According to JLL studies, the majority of the top seven cities were expected to experience a decline in the turnover of their office property rental markets by 4% on average to around 3.9 million square metres in 2020. Even the growing rate of construction of new buildings was not expected to be enough to cause vacancy rates in the top seven cities to rise. On the other hand, an average vacancy rate of 2.9%, a new low in the developments so far, was expected.

Given the sharp decline in vacancy rates in many A-rated German cities and the expectation that the number of office workers would continue to rise, the **office development project landscape** continued to seem advantageous in 2020 – both factors applied to Berlin in particular, according to the market research institute bulwiengesa AG in Berlin. In light of the pressure on yields, investors were expected to become increasingly focused on development projects which they could later hold in their portfolios. The lack of space, competition with other usage types and the limited available capacity of the construction industry were all considered limiting factors. JLL expected around 1.5 million square metres of office space to be created in Berlin over the next three years to 2022 – this would be a significant increase compared to previous years.

Compared to other asset classes, CBRE expected **retail** to offer higher yields in 2020 and therefore attract investment capital. The German market was considered attractive due to its size, low unemployment rates and rising wages. As such, the volume of transactions in the coming year was expected to reach around EUR 10 bn. Online retail was still seen as the greatest challenge facing bricks-and-mortar retail.

With regard to the **hotel asset class**, according to BNP Paribas Real Estate, investors in 2020 were even expected to look for investment opportunities away from the A-rated cities as the level of interest in hotels was still considered strong.

Overall, the situation in every asset class where TLG IMMOBILIEN is active was decidedly positive before the outbreak of the coronavirus. Even with consideration for all of the uncertainty surrounding the duration and impact of the coronavirus pandemic, TLG IMMOBILIEN does not currently consider it likely that the development of the property markets will suffer any long-term negative effects.

3.2.2 Expected business development

Based on the current state of its knowledge, TLG does not expect the coronavirus pandemic to have a lasting negative effect on the business success of TLG IMMOBILIEN. However, the crisis had not yet been overcome by the time the annual and consolidated financial statements were prepared. Additionally, as no robust data are yet available with regard to the macro-economic impact, the coronavirus pandemic represents a significant uncertainty factor in the expected development of TLG IMMOBILIEN's business.

Therefore, the company will continue to operatively manage its property portfolio with a view to generating value. Unless any major unexpected action becomes necessary, the company expects property-related expenses that must be borne by the owner to develop in relation to rental income as in 2019. Due to the coronavirus pandemic, it is possible that parts of the property portfolio will be affected by bad debt. However, the German government's package of measures which is likely to come into effect shortly is expected to help soften the blow for tenants and landlords. Irrespective of government support measures, TLG IMMOBILIEN sees itself soundly prepared as sales with hotels of EUR 17.6 million in 2019 only had a 7.6% share in annual in-place rent. Securities from hotels amount to approximately 45% of annual net rental income.

TLG IMMOBILIEN considers itself an active portfolio manager and will therefore continue to strive to expand its own property portfolio in line with its portfolio strategy through acquisitions and disposals in 2020 when the opportunities arise in the market. Property prices have increased significantly in the core markets of TLG IMMOBILIEN recently, so the company expects few opportunities to acquire properties that meet its requirements in terms of quality and returns.

The indirect improvement in creditworthiness through the merger with Aroundtown and the historically low interest rates make it reasonable to expect TLG IMMOBILIEN to remain capable of obtaining debt at attractive rates directly or through Aroundtown in 2020. In line with the plans of the company, there will be little need to refinance in 2020. TLG IMMOBILIEN will continue to pursue its objective of keeping its adjusted net LTV, including the hybrid bond, at below 45% (previous year: adjusted net LTV of 42.7%).

With consideration for the contractually secured acquisitions and expected disposals by the time the financial statements were prepared, TLG IMMOBILIEN expects its funds from operations (FFO) in the 2020 financial year to be between EUR 153 m and EUR 157 m (EUR 148 m in 2019) initially. However, this does not factor in the currently unforeseeable effects of the coronavirus pandemic or potential additional acquisitions and disposals in 2020 which could further increase or decrease the FFO in 2020. Likewise, this evaluation does not factor in potential operating synergies or other effects that might result from the merger with Aroundtown.

Not taking the currently unforeseeable effects of the coronavirus pandemic into consideration, TLG IMMOBILIEN expects its EPRA Net Asset Value, which is largely influenced by the development of the value of the property portfolio, to increase slightly by the end of the 2020 financial year. This will require the company to not incur any significant unforeseeable expenses and the property market not to change significantly.

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

The declarations on corporate governance to be issued pursuant to Sec. 289f and Sec. 315d HGB and the corporate governance report – which are not elements of the management report – are available online at *https://ir.tlg.eu/corporategovernance* and *https://www.wcm.de/en/company/corporate-governance*. Pursuant to Sec. 317 (2) sentence 4 HGB, the disclosures under Sec. 289f and Sec. 315d HGB are not included in the audit carried out by the auditor.

4.2 PROPORTION OF WOMEN AND DIVERSITY

Following the entry into force of the German act on equal participation of women and men in executive positions in the private and public sector on 1 May 2015, listed companies are obliged to set future targets for the proportion of women on their management and supervisory boards as well as on the two management levels below the management board, and to set implementation deadlines within which they intend to reach their target proportion of women (targets and implementation deadlines).

Therefore, under Sec. 111 (5) AktG, the Supervisory Board must set the targets and implementation deadlines for the Management and Supervisory Boards of the company.

In its meeting on 23 May 2017, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67% which must be met continuously until 30 June 2022. The Supervisory Board is not currently meeting this target.

Initially, the minimum proportion of women on the Management Board of TLG IMMOBILIEN AG shall remain at 0% for the implementation deadline ending on 30 June 2022. All of the members of the Management Board are male.

In line with Sec. 76 (4) AktG, the Management Board must set the targets and implementation deadlines for the proportion of women on the first and second management levels beneath the Management Board.

In its meeting on 29 June 2017, the Management Board set the minimum proportion of women on the first management level below the Management Board at 10% and the minimum proportion of women on the second management level below the Management Board at 30%; the proportion of women on these management levels may not fall below this target before 30 June 2022. These targets were met in 2019.

In addition to the diversity-related targets for the composition of the Management Board and Supervisory Board described in the declaration on corporate governance, the Supervisory Board prepared a profile of skills and expertise.

4.3 REMUNERATION REPORT

The remuneration report explains the structure and the amount of remuneration allocated to the Management and Supervisory Boards. It complies with the statutory regulations and the recommendations of the German Corporate Governance Code.

4.3.1 Foreword

The Supervisory Board defines the total salary of each member of the Management Board and adopts the remuneration system for the Management Board and examines it regularly.

New Management Board contracts were concluded with Mr Finkbeiner and Mr Karoff in January 2018. These contracts were terminated by means of dissolution agreements on 31 October 2018.

By resolution of the Supervisory Board on 13 September 2018, Mr Klinck and Mr Overath were appointed as members of the Management Board and received their employment contracts with effect from 1 October 2018.

By resolution of the Supervisory Board on 28 May 2019, Mr Bar-Hen was appointed as a member of the Management Board and its CEO with effect from 3 June 2019.

4.3.2 Management Board remuneration system

The remuneration system factors in the joint and personal work of the members of the Management Board to ensure sustainable corporate success. The remuneration system is based on performance and success, in which regard long-term orientation, suitability and sustainability are key criteria.

The remuneration of the Management Board comprises a fixed remuneration component (base remuneration), a variable remuneration component with a short-term incentive (STI) and a variable remuneration component with a long-term incentive (LTI).

The Supervisory Board set out the initial levels of the LTI for 2019 in its meeting on 20 March 2019.

Another Management Board member, the CEO Mr Barak Bar-Hen, was appointed in 2019; his remuneration from 3 June 2019 onwards has been taken into account proportionately.

in EUR k	**Barak Bar-Hen**	**Gerald Klinck**	**Jürgen Overath**
Base remuneration	500	450	450
Short-term variable remuneration (STI)	300	250	250
Long-term variable remuneration (LTI)	400	300	300
Total remuneration	**1,200**	**1,000**	**1,000**

The members of the Management Board will strive to hold an agreed target number of shares in the company (at the very least) for the duration of their employment as members of the Management Board. In order to achieve this target, the company can pay 25% of the annual STI and LTI as shares until the target number of shares has been reached.

Fixed remuneration component

The base remuneration is paid out to the members of the Management Board in twelve equal monthly instalments.

On top of the base remuneration, the members of the Management Board receive contractually defined additional benefits[1]. Furthermore, the company has taken out a D&O insurance policy for the members of the Management Board. Under the German Corporate Governance Code, the D&O insurance policy features a statutory deductible which, if a claim is filed, consists of 10% of the claim, up to 1.5 times the fixed annual remuneration of the member of the Management Board in question.

Short-term incentive (STI)

Every year, the members of the Management Board and its Chairperson receive a short-term incentive (STI) which is calculated and determined by the Supervisory Board on the basis of the proportionate achievement of targets (target FFO per share and management targets) in each financial year starting with the year in which the person in question assumed the role.

The target FFO per share is defined by the Supervisory Board at the start of each financial year. The management targets are agreed with each member of the Management Board before the start of the financial year.

[1] *Essentially from the fixed compensation for use of a private car and for private pension funds*

The STI is the product of (i) the target STI, (ii) the FFO per share factor and (iii) the performance factor; the maximum annual STI is EUR k 375 for the members of the Management Board and EUR k 450 for the Chairperson, and no STI will be paid at all in a financial year if the FFO per share is less than 75% of the target FFO per share.

The FFO per share factor is 1.00 if the final FFO per share for the year corresponds to the target FFO per share. For every full percentage point of a difference between the final FFO per share for the year and the target FFO per share, the factor changes by 0.02 up to a maximum of 1.50 for the members of the Management Board and a maximum of 1.2 for the Chairperson.

The performance factor is defined by the Supervisory Board on the basis of progression towards management targets and is between 0.8 and 1.2.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board. The STI is payable along with the monthly instalment of the basic annual salary following the approval of the consolidated financial statements of the company.

Long-term incentive (LTI)

In addition to a short-term incentive, the members of the Management Board are entitled to a long-term incentive based on the long-term performance of the company. The achievement rate for the long-term incentive is based on the achievement of the agreed targets at the end of every four-year period (the performance period) and is determined by assessing the level of progress towards the targets.

Starting from the year in which the person in question assumed the role (Mr Klinck and Mr Overath in 2018, Mr Bar-Hen in 2019), the LTI is paid in the form of virtual shares (performance shares) which are converted into cash bonuses and paid out as such after the end of each LTI performance period with consideration for the achievement of LTI targets.

The key parameters for the LTI for the members of the Management Board are the performance of the EPRA NAV (target NAV per share) and the performance of the company's shares (total shareholder return) by the end of the LTI performance period compared to the development of the total shareholder return of the LTI reference index, the capped version of the FTSE EPRA/NAREIT Europe Index (total shareholder return performance).

The target NAV per share for the performance period is defined by the Supervisory Board at the start of each financial year.

The parameters are weighted against one another in a ratio of 50% (NAV per share development) and 50% (total shareholder return performance factor).

At the start of each four-year period, the number of assigned virtual shares is defined by dividing the agreed target amount by the EPRA NAV per share calculated on the basis of the annual financial statements for the previous year.

The LTI is the product of the number of virtual shares allocated for the financial year, the share price at the end of every fourth year plus the sum of the dividend per share paid during the LTI performance period and the LTI target performance factor (the total LTI factor). The performance factor is based equally on progress on the NAV per share factor and the total shareholder return performance factor. Each performance factor can have a value of between 0% and 200%. If the NAV per share falls short of the target by more than 15 percentage points, the performance is scored as zero. Likewise, if the total shareholder return of the company's shares is at least 15% poorer than the total shareholder return of the reference index, the total shareholder return performance factor is scored as zero.

The long-term incentive for each year of activity is paid to the member of the Management Board with the salary statement issued for the month after the preparation of the financial statements in the fourth financial year. The LTI is capped at a maximum of EUR k 750 (for Mr Klinck and Mr Overath) and EUR k 1,000 (for the CEO Mr Bar-Hen), yet it is also capped in that the total remuneration including base remuneration and STI may not exceed EUR k 1,500 (for Mr Klinck and Mr Overath) or EUR k 1,700 (for the CEO Mr Bar-Hen) in any one financial year.

The following virtual shares were provided to the members of the Management Board in 2019:

Long-term incentive

2019 tranche	Barak Bar-Hen[1]	Gerald Klinck	Jürgen Overath[1]
Settlement date	03/06/2019	20/03/2019	20/03/2019
Number of virtual shares	8,882	11,420	11,420
Fair value as at the settlement date (EUR k)	341	429	429
Intrinsic value of the virtual shares as at 31/12/2019 (EUR k)	**378**	**486**	**486**

[1] Proportionate remuneration from 3 June 2019

With regard to the share-based payments, expenses of EUR k 761 were recognised for Mr Bar-Hen (previous year EUR k 0), expenses of EUR k 824 were recognised for Mr Klinck (previous year EUR k 257) and expenses of EUR k 741 were recognised for Mr Overath in the financial year (previous year EUR k 240).

Total remuneration for the Management Board in 2019 and 2018

In the 2019 and 2018 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received	Barak Bar-Hen[1]	Gerald Klinck[2]		Jürgen Overath[2, 3]		Peter Finkbeiner	Niclas Karoff
in EUR k	**2019**	**2019**	**2018**	**2019**	**2018**	**2018**	**2018**
Fixed remuneration	289	450	112	439	112	333	333
Fringe benefits	89	135	21	65	71	40	26
Subtotal of fixed remuneration	378	585	133	504	183	373	359
Short-term variable remuneration (STI)	0	125	0	125	0	300	300
Long-term variable remuneration (LTI)	0	0	0	0	0	1,857	1,857
Subtotal of variable remuneration	0	125	0	125	0	2,407	2,407
Total remuneration	**378**	**710**	**133**	**629**	**183**	**2,780**	**2,766**

[1] Proportionate remuneration from 3 June 2019
[2] Proportionate remuneration from 1 October 2018
[3] Proportionate remuneration in 2019 because of long-term illness

Bonuses paid	Barak Bar-Hen[1]			Gerald Klinck[2]				Jürgen Overath[2]				Peter Finkbeiner	Niclas Karoff
in EUR k	**2019**	**2019 min.**	**2019 max.**	**2019**	**2019 min.**	**2019 max.**	**2018**	**2019**	**2019 min.**	**2019 max.**	**2018**	**2018**	**2018**
Fixed remuneration	289	289	289	450	450	450	112	439	439	450	112	333	333
Fringe benefits	89	89	89	85	85	85	71	65	65	89	71	40	26
Subtotal of fixed remuneration	378	378	378	535	535	535	183	504	504	539	183	373	359
Short-term variable remuneration (STI)	175	0	262	250	0	375	63	250	0	375	63	250	250
Long-term variable remuneration (LTI)	341	0	583	429	0	750	93	429	0	750	93	419	419
Subtotal of variable remuneration	516	0	845	679	0	1,125	156	679	0	1,125	156	669	669
Total remuneration	**894**	**378**	**1,223**	**1,214**	**535**	**1,660**	**339**	**1,183**	**504**	**1,664**	**339**	**1,042**	**1,028**

Total earnings from the company according to the German Commercial Code (HGB)	Barak Bar-Hen[1]	Gerald Klinck[2]		Jürgen Overath[2]		Peter Finkbeiner	Niclas Karoff
in EUR k	2019	2019	2018	2019	2018	2018	2018
Fixed remuneration	289	450	112	439	112	333	333
Fringe benefits	89	85	71	65	71	40	26
Subtotal of fixed remuneration	378	535	183	504	183	373	359
Short-term variable remuneration (STI)	175	313	63	313	63	250	250
Long-term variable remuneration (LTI)	341	429	93	429	93	145	145
Subtotal of variable remuneration	516	742	156	742	156	395	395
Total remuneration	**894**	**1,277**	**339**	**1,246**	**339**	**768**	**754**

[1] Proportionate remuneration from 3 June 2019
[2] Proportionate remuneration from 1 October 2018

Current pensions were paid to two former managing directors in 2018 and 2019. The expenses totalled EUR 0.168 m in 2018 and EUR 0.166 m in 2019. The provisions formed for the pensions amount to EUR 2.475 m.

Payments in the event of premature termination of employment

If the contract of a member of the Management Board is terminated prematurely, payments to that member of the Management Board may not exceed the value of two years' worth of remuneration (the exit compensation cap) or the value of the remuneration for the remaining term of the contract. The exit compensation cap is calculated on the basis of the total remuneration for the past full financial year and if appropriate also the expected total remuneration for the current financial year (see recommendation 4.2.3 of the German Corporate Governance Code).

Death benefits

If the member of the Management Board should die during the term of the contract, the remuneration – including STI and LTI – shall be determined up to the date of the termination of contract as a result of death and disbursed to the member's surviving dependants in line with the management contract. Furthermore, as joint creditors, the widow and children – up to the age of 25 – shall be entitled to the continued payment of all remuneration for the rest of the month in which the member died plus the three following months.

Supervisory Board remuneration system

The Supervisory Board was established on 5 September 2014. In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. Members of the Supervisory Board who have only been part of the Supervisory Board or one of its committees for a part of the financial year will receive proportional remuneration for that financial year.

The members of the Supervisory Board receive fixed basic annual remuneration of EUR k 40. The Chairperson of the Supervisory Board (Mr Sascha Hettrich) receives three times this amount and the Vice-chairperson (Mr Ran Laufer) receives one and a half times this amount. Members of the audit committee receive fixed annual remuneration of EUR 10,000 and members of other committees of the Supervisory Board receive fixed annual remuneration of EUR 7,500. The Chairperson of each committee receives double this fixed amount. The members of the Supervisory Board are members of the following committees:

in EUR k	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee
Michael Zahn[1]	C	M	C	
Dr. Michael Bütter[1]	M		M	M
Sascha Hettrich[2]	M			C
Sascha Hettrich (C)[3]	C	M	C	M
Jonathan Lurie[3]	M	M	M	
Helmut Ullrich		C	M	M[2]
Stefan E. Kowski[4]				
Klaus Krägel[3]				C
Ran Laufer (VC)[3]	M			M

[1] Until 21 May 2019 [2] Until 20 May 2019 [3] From 21 May 2019 [4] Until 15 May 2019
C = Chairperson M = Member VC = Vice-chairperson

The sum of all remuneration plus the remuneration for membership on the supervisory boards and similar managerial bodies of Group companies may not exceed EUR k 150 (excluding VAT) per calendar year per member of the Supervisory Board, regardless of the number of committee memberships and roles.

Supervisory Board remuneration in detail

Remuneration paid or to be paid to the members of the Supervisory Board for the 2019 financial year:

in EUR k	Supervisory Board	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee	VAT	Total
Michael Zahn[1]	50,000.00	6,250.00	4,166.67	6,250.00	0	12,666.67	79,333.33
Dr. Michael Bütter[1]	25,000.00	3,125.00	0	3,125.00	3,125.00	6,531.25	40,906.25
Helmut Ullrich	40,000.00	0	20,000.00	7,500.00	3,125.00	13,418.75	84,043.75
Sascha Hettrich[4,5]	93,333.33	12,500.00	10,000.00	10,000.00	10,000.00	24,700.00	154,700.00
Stefan Kowski[1]	16,666.67	0	0	0	0	0	16,666.67
Jonathan Lurie[2]	36,666.67	5,000.00	6,666.67	5,000.00	0	0	53,333.33
Klaus Krägel[3]	26,666.67	0	0	0	10,000.00	6,966.67	43,633.33
Ran Laufer[3]	40,000.00	5,000.00	0	0	5,000.00	9,500.00	59,500.00

[1] Proportionate at 5/12; resigned in May [2] Proportionate at 11/12; appointed from February 2019 [3] Proportionate at 8/12; appointed from May 2019
[4] Proportionate at 8/12; Chairperson from May 2019 [5] Cap (according to Sec. 13.3 of the Articles of Association, Group-wide)

A D&O group insurance policy has also been taken out for the members of the Management and Supervisory Boards; this policy contains a deductible that meets the requirements of Sec. 93 (2) sentence 3 AktG and recommendation 3.8 (3) in conjunction with (2) of the German Corporate Governance Code.

5. DISCLOSURES RELEVANT TO ACQUISITIONS

5.1 COMPOSITION OF SUBSCRIBED CAPITAL

As at 31 December 2019, the share capital was EUR 112,073,461.00, comprising 112,073,461 no-par bearer shares with a value of EUR 1.00 per share. The share capital is fully paid-in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the general meeting. This does not include any treasury shares held by the company; these do not grant the company any rights.

5.2 MAJOR SHAREHOLDINGS

As reported on 15 March 2019, Amir Dayan/Maria Saveriadou held 29.33% of the voting rights of the company as at 31 December 2019 through their interest in the third-party company Ouram Holding S.à r.l. On that date, the total number of voting rights was 103,444,574.

On 20 February 2020, it was reported that Amir Dayan/Maria Saveriadou held 10.41% of the voting rights of the company through their interest in the third-party company Ouram Holding S.à r.l. The total number of voting rights referred to by the voting rights notification was 112,073,731.

According to the voting rights notification dated 20 February 2020, Aroundtown SA holds a total of 77.76% of the company's voting rights – essentially directly – due to the takeover offer. On that date, the total number of voting rights was 87,168,686. The call option described in section 3 of the announcement made by Aroundtown SA on 13 February 2020 in accordance with Sec. 23 (1) sentence 1 no. 3 of the German Securities Acquisition and Takeover Act (WpÜG) expired on 14 February 2020 upon the closing of Aroundtown SA's voluntary public takeover offer for all of the shares of TLG IMMOBILIEN AG.

Please note that the last disclosed number of voting rights might since have changed within the thresholds without the shareholders being obliged to inform the company.

All publications by TLG IMMOBILIEN AG in connection with notifications of investments in the reporting year and beyond are available on the website of TLG IMMOBILIEN AG under *INVESTOR RELATIONS > FINANCIAL NEWS*.

5.3 APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Members of the Management Board are appointed and dismissed in accordance with Sec. 84 AktG. There are no significant supplementary or deviating provisions in the Articles of Association or rules of procedure. Amendments are made to the Articles of Association in accordance with the Stock Corporation Act (AktG). There are no significant supplementary or deviating provisions in the Articles of Association or rules of procedure.

5.4 AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE NEW SHARES

By resolution of the extraordinary general meeting on 22 November 2017 and with the approval of the Supervisory Board, the Management Board was authorised to increase the share capital of the company by up to EUR 20,405,764.00 in exchange for cash contributions (Authorised Capital 2017/II) by issuing up to 20,405,764 new shares by 21 November 2022. Having made partial use of this authority in 2019, the Management Board is still authorised to increase the share capital by EUR 11,905,764.00 and issue another 11,905,764 new shares.

The shareholders must always be granted subscription rights, although the subscription rights of the shareholders can be excluded under the conditions of the Authorised Capital 2017/II.

Furthermore, the share capital has been conditionally increased by up to EUR 20,405,764.00 by the issuance of 20,405,764 new shares (Contingent Capital 2017/II). The contingent capital increase will enable the company to issue new shares to the creditors of any convertible bonds or similar instruments that might be issued by 21 November 2022.

Furthermore, the share capital has been increased by up to EUR 3,455,360.00 by the issuance of up to 3,455,360 new shares (Contingent Capital 2017/III). The contingent capital increase will enable the company to provide the departing shareholders of WCM Beteiligungs- und Grundbesitz- Aktiengesellschaft with exit compensation consisting of shares in the company in accordance with the provisions of the control agreement concluded with WCM AG.

By resolution of the general meeting on 21 May 2019 and with the approval of the Supervisory Board, the Management Board is authorised to increase the share capital of the company by up to EUR 10,000,000.00 by 20 May 2024 by issuing up to 10,000,000 new shares in exchange for contributions in kind in order to pay out dividends in shares whereby shares of the company are issued (including partially and/or optionally) from the authorised capital (Authorised Capital 2019) in exchange for the surrender of the shareholders' dividend entitlements.

5.5 AUTHORITY OF THE MANAGEMENT BOARD TO ACQUIRE AND UTILISE TREASURY SHARES

On 21 May 2019 and with the approval of the Supervisory Board, the general meeting of TLG IMMOBILIEN AG authorised the Management Board to acquire treasury shares to a value of up to 10% of the share capital of the company as at the date of the resolution or – if this value is lower – when the authority is exercised, by 20 May 2024 and with consideration for the principle of equal treatment (Sec. 53a AktG).

At the discretion of the Management Board and subject to other prerequisites, the purchase can be (i) on the stock exchange, (ii) in the form of a public purchase offer submitted to all of the company's shareholders or a public invitation to the shareholders to submit offers for sale, or (iii) in the form of a public offer or a public invitation to submit an offer to swap liquid shares which have been admitted to trading on an organised market in the sense of the German Securities Acquisition and Takeover Act (WpÜG) in exchange for shares of the company.

Furthermore, the Management Board was authorised to utilise the shares acquired in this manner, subject to other conditions, especially (i) to withdraw shares, (ii) to offer to third parties in exchange for contributions in kind with the approval of the Supervisory Board, (iii) to sell to third parties in exchange for cash with the approval of the Supervisory Board (in which regard the selling price may not be significantly lower than the stock exchange price at the time of sale; Sec. 186 (3) sentence 4 AktG), and (iv) to service rights or duties to purchase shares arising from and in connection with convertible or warrant bonds issued by the company.

5.6 CHANGE-OF-CONTROL CLAUSES AND COMPENSATION AGREEMENTS IN THE EVENT OF A TENDER OFFER

The main agreements of TLG IMMOBILIEN AG which are contingent on a change of control concern financing agreements. The main financing agreements of TLG IMMOBILIEN contain standard provisions in the event of a change of control. In particular, these agreements contain the obligation of TLG IMMOBILIEN AG to report the change of control to the bank and the right of the creditor to terminate the loan with immediate effect and render it payable in the event of a change of control.

For the effects of the change of control on existing obligations towards creditors and bondholders in connection with the takeover offer of Aroundtown SA, Luxembourg, see the disclosures under "Subsequent events" in chapter H.14.

The contracts of the members of the Management Board do not contain provisions in the event of a change of control.

6. RESPONSIBILITY STATEMENT REQUIRED BY SEC. 264 (2) SENTENCE 3 HGB, SEC. 289 (1) SENTENCE 5 HGB AND SEC. 315 (1) SENTENCE 5 HGB

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the annual and consolidated financial statements give a true and fair view of the net assets, cash flows and financial performance of the company and of the Group, and the report on the position of the company and the Group includes a fair review of the development and performance of the business and the position of the company and of the Group, together with a description of the principal opportunities and risks associated with the expected development of the company and of the Group.

Berlin, 27 March 2020

Barak Bar-Hen
Chief Executive Officer (CEO)

Gerald Klinck
Chief Financial Officer (CFO)

Jürgen Overath
Chief Operating Officer (COO)

7. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

The business model and strategy of TLG IMMOBILIEN AG are consistent with the methods and targets of the TLG Immobilien Group as described in “1. Company Fundamentals”.

7.1 SEPARATE FINANCIAL STATEMENTS – FINANCIAL PERFORMANCE

The financial performance of the GAAP financial statements of TLG IMMOBILIEN AG are as follows:

	01/2019–12/2019		01/2018–12/2018		Change	
	EUR m	%	EUR m	%	EUR m	%
Revenue	252.3	97	210.7	100	41.6	20
Change in portfolio	7.1	3	0.0	0	7.1	0
Other capitalised internally produced services	0.5	0	0.0	0	0.5	0
Total	**259.9**	**100**	**210.7**	**100**	**49.2**	**23**
Operating expenses	194.0	75	161.3	77	32.7	20
Operating profit	**65.9**	**25**	**49.4**	**23**	**16.5**	**33**
Income from investments	16.2		8.1		8.1	98
Financial result	−42.3		−20.1		−22.2	110
Other operative effects	3.7		1.4		2.3	163
Operative result	**43.5**		**38.8**		**4.7**	**12**
Non-operative result	−2.8		−50.5		47.7	−94
Earnings before taxes	**40.7**		**−11.7**		**52.4**	**0**
Income taxes	12.9		8.0		4.9	61
Annual profit	**27.8**		**−19.7**		**47.5**	**0**

The company closed the 2019 financial year successfully with an annual profit of EUR 27.8 m and an operating income of EUR 43.5 m.

The positive change in the annual profit compared to the previous year was essentially due to the revenue from disposals of EUR 68.0 m which was EUR 43.0 m higher than in the previous year. Netted against disposals at book value, this resulted in higher disposal profits of EUR 22.0 m.

The improvement of non-operating income was due to the recognition of write-downs of financial assets totalling EUR 59.7 m in 2018 which were not offset by any value in the current financial year.

In contrast, the income was lowered by the EUR 22.2 m decrease in the financial result. The main causes were the EUR 10.7 m increase in interest expenses for the bonds issued in May and September 2019, each with a nominal value of EUR 600 m, as well as EUR 4.0 m for the premature repayment of loans in connection with the optimisation of the company's financing structure. Additionally, interest expenses to affiliated companies have increased by EUR 6.5 m.

With earnings before tax of EUR 40.7 m which were EUR 52.4 m higher than in the previous year, the forecast in the 2018 annual report has been met.

The decline in revenue from letting activities was due to a larger volume of disposals in 2019.

Compared to the previous year, operating expenses have increased by EUR 32.7 m, largely due to significantly higher write-downs in connection with disposals of properties, and higher purchased services for repairs and maintenance. It was also affected by higher personnel expenses due to the higher number of employees, higher depreciation and amortisation and higher other operating expenses, due largely to the planned merger with Aroundtown. The expenses relating to letting activities are consistent with the change in revenue from operational management.

Operating profits have increased by EUR 16.5 m compared to the previous year, due primarily to more frequent disposals of properties.

The net income from investments has increased to EUR 16.2 m, due primarily to higher income from investments (EUR 5.4 m) and higher income from profit transfers (EUR 3.5 m).

The income taxes (EUR 12.9 m) comprise ongoing income taxes (EUR 6.8 m), deferred taxes (EUR 6.1 m) and tax refunds (EUR −0.04 m).

7.2 SEPARATE FINANCIAL STATEMENTS – CASH FLOWS

The following condensed cash flow statement from the GAAP financial statements of TLG IMMOBILIEN AG shows the changes in cash and cash equivalents (cash in hand and bank balances) and the underlying movements of cash:

in EUR m	01/2019 – 12/2019	01/2018 – 12/2018	Change
Cash flow from operating activities	96.1	100.2	−4.1
Cash flow from investing activities	−1,641.2	−123.4	−1,517.8
Cash flow from financing activities	1,870.9	−41.4	1,912.3
Change in cash and cash equivalents	325.8	−64.6	390.4
Cash and cash equivalents at the beginning of the financial year	121.1	185.7	−64.6
Cash and cash equivalents at the end of the financial year	**446.9**	**121.1**	**325.8**

The cash flow from operating activities was EUR 96.1 m in 2019 and therefore EUR 4.1 m lower than in the previous year. This was due primarily to the increase in cash paid for costs in connection with the planned merger with Aroundtown.

Essentially, the EUR 1,517.8 m increase in the negative cash flow from investing activities to EUR 1,641.2 m reflects the additions to investment assets from the acquisition of shares of Aroundtown totalling EUR 1,530.2 m and the acquisition of a property through a subsidiary for EUR 88.7 m. The investment payments for portfolio properties amounted to EUR 25.9 m.

The proceeds from the disposal of properties increased by EUR 43.0 m to EUR 68.0 m due to the higher volume of disposals.

The positive cash flow from financing activities of EUR 1,870.0 m is due to the issuance of the three bonds in May and September 2019, each with a nominal value of EUR 600 m – the hybrid bond was issued by a subsidiary and transferred to TLG IMMOBILIEN AG – as well as the capital increase in June 2019 which generated gross proceeds of EUR 222.1 m. The payment of a dividend of EUR 94.1 m to the shareholders had the opposite effect.

Overall, due to the aforementioned items, the cash and cash equivalents increased by EUR 325.8 m to EUR 446.9 m. The cash and cash equivalents consist entirely of liquid funds.

The company was able to meet all of its financial obligations at all times in the 2019 financial year.

7.3 SEPARATE FINANCIAL STATEMENTS – NET ASSETS

The net assets of the GAAP financial statements of TLG IMMOBILIEN AG are as follows, with receivables and liabilities due in more than one year being treated as non-current:

	31/12/2019		31/12/2018		Change	
	EUR m	%	EUR m	%	EUR m	%
Fixed assets	4,135.0	88.5	2,508.5	93.6	1,626.5	64.8
Non-current receivables	0.1	0.0	0.1	0.0	0.0	0.0
Inventories	35.0	0.7	27.9	1.0	7.1	25.4
Current receivables	25.3	0.5	15.3	0.6	10.0	65.4
Cash and cash equivalents	446.7	9.6	121.1	4.5	325.6	268.9
Other assets	30.1	0.6	6.1	0.2	24.0	393.4
Total assets	**4,672.0**	**100.0**	**2,679.0**	**100.0**	**1,993.0**	**74.4**
Equity[1]	1,432.9	30.7	1,273.7	47.5	159.2	12.5
Non-current liabilities	3,019.1	64.6	1,247.0	46.6	1,772.1	142.1
Current liabilities	220.0	4.7	158.3	5.9	61.7	39.0
Total equity and liabilities	**4,672.0**	**100.0**	**2,679.0**	**100.0**	**1,993.0**	**74.4**

[1] Including the special item for investment subsidies and grants totalling EUR 9.2 m (previous year EUR 10.7 m)

The assets side is dominated by fixed assets. The carrying amount of the fixed assets increased by EUR 1,626.5 m to EUR 4,135.0 m.

In the 2019 financial year, there were additions to investment assets totalling EUR 1,530.2 m from the acquisition of the shares of Aroundtown SA, Luxembourg and the investments in subsidiaries totalling EUR 98.8 m, primarily for the purpose of acquiring properties. This was counterbalanced by write-downs of EUR 36.7 m and depreciation and amortisation (EUR 58.3 m).

The current receivables increased by EUR 10.0 m, due primarily to receivables from affiliated companies under profit transfer agreements.

Compared to the previous year, cash has increased by EUR 325.8 m. The reason for the change is described in the notes to the cash flows in accordance with HGB.

With consideration for the special item for investment subsidies and grants, TLG IMMOBILIEN AG is financed by equity at 30.7% (previous year 47.5%) and by non-current liabilities at 64.6% (previous year 46.5%), with the remainder attributable to current liabilities.

The EUR 1,772.1 m increase in non-current liabilities was due primarily to the issuance of the three bonds in May and September 2019, each with a nominal value of EUR 600 m, including the issuance of a hybrid bond through a subsidiary.

The current liabilities are higher than in the previous year, due largely to reclassifications within liabilities due to financial institutions and liabilities to affiliated companies for reasons relating to their terms.

7.4 SEPARATE FINANCIAL STATEMENTS – RISKS AND OPPORTUNITIES

TLG IMMOBILIEN AG has a dominant weight within the Group. It therefore faces the same opportunities and risks as the Group. The risks faced by the subsidiaries affect TLG IMMOBILIEN AG in line with each shareholding. The individual risks of the Group are disclosed in the risk report (see section 3.1.2).

7.5 SEPARATE FINANCIAL STATEMENTS – FORECAST REPORT

The disclosures concerning the general economic conditions in section 3.2.1 and the evaluation of the expected development of the TLG IMMOBILIEN Group's business in section 3.2.2, especially in terms of the potential impact of the coronavirus pandemic on its business operations, also apply to the forecast business development of TLG IMMOBILIEN AG.

Not taking the currently unforeseeable effects of the coronavirus crisis into consideration, the development of business is still expected to be positive.

On this basis, the operative result for 2020 is expected to be on a similar level to 2019 and earnings before taxes are expected to be significantly higher due to the dividend resulting from the shares in Aroundtown.

Berlin, 27 March 2020

Barak Bar-Hen	Gerald Klinck	Jürgen Overath
Chief Executive Officer (CEO)	Chief Financial Officer (CFO)	Chief Operating Officer (COO)

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2019

in EUR k	Reference	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Rental income		229,767	223,886
Income from recharged operating costs		47,850	45,524
Income from other goods and services		5,108	2,033
Income from letting activities		**282,725**	**271,443**
Expenses from operating costs		−59,452	−60,595
Maintenance expenses		−10,454	−11,283
Other services		−3,488	−2,839
Expenses relating to letting activities		**−73,394**	**−74,717**
Net operating income from letting activities	F.1	**209,331**	**196,726**
Proceeds from the disposal of properties		186,035	25,025
Carrying amount of properties disposed of		−186,013	−25,025
Change in value of properties held for sale		21,548	7,921
Expenses from the disposal of properties		−1,037	−88
Result from the disposal of properties	F.2	**20,533**	**7,833**
Result from the remeasurement of investment property	E.1	**638,366**	**552,884**
Other operating income	F.4	1,756	1,996
Personnel expenses	F.5	−18,720	−16,505
Depreciation and amortisation	F.6	−1,728	−165,755
Other operating expenses	F.7	−22,997	−16,128
Earnings before interest and taxes (EBIT)		**826,541**	**561,051**
Net income from companies measured at equity	E.3	**49,817**	**0**
Financial income	F.8	388	628
Financial expenses	F.8	−44,257	−32,109
Result from the remeasurement of derivative financial instruments	F.9	−18,940	−7,904
Earnings before taxes		813,549	521,666
Income taxes	F.10	−235,230	−210,720
Net income		**578,319**	**310,946**
Other comprehensive income (OCI):	E.10		
thereof will not be reclassified to profit or loss			
Actuarial gains and losses after taxes		−816	−251
Thereof will be classified to profit or loss			
Gain/loss from remeasurement of derivative financial instruments in hedging relationships, net of taxes		1,093	740
Share of other comprehensive income from companies measured at equity	E.3	616	0
Total comprehensive income for the year		**579,212**	**311,435**
Of the net income, the following is attributable to:			
Non-controlling interests		1,542	3,019
Hybrid capital providers	E.10	5,049	0
The shareholders of the parent company		571,728	307,928
Earnings per share (basic) in EUR	F.11	**5.30**	**2.99**
Earnings per share (diluted) in EUR	F.11	**5.30**	**2.99**
Of the total comprehensive income for the year, the following is attributable to:			
Non-controlling interests		1,542	3,019
Hybrid capital providers		5,049	0
The shareholders of the parent company		572,621	308,416

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

Assets

in EUR k	Reference	31/12/2019	31/12/2018
A) Non-current assets		**6,343,234**	**4,112,755**
Investment property	E.1	4,707,397	4,067,527
Advance payments on investment property		2,218	23
Property, plant and equipment	E.2	8,794	8,933
Intangible assets	E.2	2,980	2,590
Shares in companies measured at equity	E.3	1,580,641	0
Other non-current financial assets	E.4	18,098	13,517
Right-of-use assets	E.2	2,020	n/a
Other assets	E.6	21,086	20,165
B) Current assets		**559,075**	**208,092**
Inventories	E.7	734	737
Trade receivables	E.5	10,979	14,864
Receivables from income taxes		477	1,827
Other current financial assets	E.4	16,959	1,129
Other receivables and assets	E.6	2,958	2,562
Cash and cash equivalents	E.8	523,950	153,893
Assets classified as held for sale	E.9	3,018	33,080
Total assets		**6,902,309**	**4,320,847**

Equity and liabilities

in EUR k	Reference	31/12/2019	31/12/2018
A) Equity	E.10	**3,446,647**	**2,157,239**
Subscribed capital		112,074	103,385
Capital reserves		1,148,041	1,011,381
Retained earnings		1,577,372	1,023,751
Other reserves		−3,700	−4,593
Equity attributable to shareholders of the parent company		**2,833,787**	**2,133,924**
Equity of the hybrid capital providers		590,844	0
Equity attributable to shareholders of the parent company and equity of the hybrid capital providers		**3,424,631**	**2,133,924**
Non-controlling interests		22,016	23,315
B) Liabilities		**3,455,662**	**2,163,608**
I.) Non-current liabilities		**3,303,463**	**1,970,110**
Non-current liabilities due to financial institutions	E.11	960,812	1,046,342
Corporate bonds	E.12	1,578,201	395,975
Pension provisions	E.13	8,994	8,019
Other non-current provisions[2]	E.14	3,315	523
Non-current derivative financial instruments	H.1	27,307	10,254
Other non-current liabilities	E.17	27,625	28,508
Deferred tax liabilities	E.15	697,209	480,489
II.) Current liabilities		**152,199**	**193,498**
Current liabilities due to financial institutions	E.11	76,075	136,613
Corporate bonds[1]	E.12	6,486	512
Trade payables	E.17	38,560	35,389
Other current provisions	E.14	4,050	3,928
Tax liabilities	E.16	9,514	2,743
Other current liabilities	E.17	17,514	14,313
Total equity and liabilities		**6,902,309**	**4,320,847**

[1] Disclosure adjusted: The accrued interest for corporate bonds was recognised under non-current liabilities in the previous year. It is now recognised as a separate line item under current liabilities.
[2] Disclosure adjusted: The provisions from share-based payments were recognised under other current provisions in the previous year and are now recognised under non-current provisions.

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2019

in EUR k	Reference	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
1. Cash flow from operating activities			
Net income before taxes		813,549	521,666
Depreciation of property, plant and equipment and amortisation of intangible assets	D.4, E.2	1,728	165,755
Result from the remeasurement of investment property	E.1, F.3	–638,366	–552,884
Result from the remeasurement of derivative financial instruments	F.9	18,940	7,904
Increase/decrease (–) in provisions	E.14	3,889	563
Change in value of properties held for sale		–21,548	–7,921
Other non-cash income/expenses		825	–3,549
Net income from companies measured at equity	E.3	–49,817	0
Gain (–)/loss from disposal of property, plant and equipment and intangible assets		–250	370
Increase (–)/decrease in inventories	E.7	3	25
Financial income	F.8	–388	–628
Financial expenses	F.8	44,257	32,109
Increase (–)/decrease in trade receivables and other assets	E.5/6	194	–5,394
Increase (–)/decrease in trade payables and other liabilities	E.17	3,791	3,859
Cash flow from operating activities		**176,808**	**161,875**
Interest received		388	628
Interest paid		–40,703	–30,667
Income tax paid/received		–4,571	–1,824
Net cash flow from operating activities		**131,922**	**130,012**
2. Cash flow from investing activities			
Cash received from disposals of investment property	E.1, G.	67,973	25,025
Cash received from disposals of property, plant and equipment		232	193
Cash paid for acquisitions of investment property	E.1	–139,966	–153,272
Cash paid for acquisitions of property, plant and equipment		–217	–280
Cash paid to deposit finance with restricted access		–16,072	0
Cash paid for investments in intangible assets		–1,309	–1,417
Cash paid for investments in financial assets	E.3	–1,531,145	0
Cash received from the disposal of consolidated companies and other business units	C.2	66,490	0
Cash flow from investing activities		**–1,554,015**	**–129,751**
3. Cash flow from financing activities			
Cash received from the issuance of corporate bonds	E.12	1,182,755	0
Cash received from equity contributions	E.10	220,046	0
Cash received from hybrid capital providers	E.10	590,260	0
Dividend payment	E.10	–94,140	–84,645
Cash paid to non-controlling interests		–1,223	0
Cash paid to hybrid capital providers		–5,049	0
Cash received from bank loans	E.11	142,796	56,202
Repayments of bank loans	E.11	–237,240	–19,400
Cash paid to settle liabilities for leases		–414	0
Transaction costs in connection with the issuance of hybrid capital		–5,641	0
Cash flow from financing activities		**1,792,150**	**–47,843**
4. Cash and cash equivalents at end of period			
Net change in cash and cash equivalents (subtotal of 1–3)		370,057	–47,582
Cash and cash equivalents at beginning of period		153,893	201,476
Cash and cash equivalents at end of period		**523,950**	**153,894**
5. Composition of cash and cash equivalents			
Cash		523,950	153,893
Cash and cash equivalents at end of period		**523,950**	**153,893**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2019

in EUR k	Subscribed capital	Capital reserves	Retained earnings	Other comprehensive income (OCI)			Hybrid capital providers	Non-controlling interests	Equity
				Reserve hedge accounting	Actuarial gains/losses	Share of other comprehensive income from companies measured at equity			
01/01/2018	**102,029**	**1,061,087**	**739,603**	**–3,135**	**–1,948**	**0**	**0**	**38,924**	**1,936,560**
Net income	0	0	307,928	0	0	0	0	3,019	310,946
Other comprehensive income (OCI)	0	0	0	740	–251	0	0	0	489
Total comprehensive income for the year	**0**	**0**	**307,928**	**740**	**–251**	**0**	**0**	**3,019**	**311,435**
Dividend payment	0	0	–84,645	0	0	0	0	0	–84,645
Guaranteed dividend	0	0	0	0	0	0	0	–2,627	–2,627
Share capital increase in exchange for contributions in kind	1,356	30,384	–15,855	0	0	0	0	–15,885	0
Capital contributions/ redemptions in connection with share-based payments	0	–2,784	0	0	0	0	0	0	–2,784
Withdrawal from capital reserves	0	–77,306	0	0	0	0	0	0	–77,306
Allocation to retained earnings	0	0	77,306	0	0	0	0	0	77,306
Other	0	0	–585	0	0	0	0	–116	–701
Change during the period	**1,356**	**–49,706**	**284,149**	**740**	**–251**	**0**	**0**	**–15,609**	**220,679**
31/12/2018	**103,385**	**1,011,381**	**1,023,752**	**–2,394**	**–2,199**	**0**	**0**	**23,315**	**2,157,240**
01/01/2019	**103,385**	**1,011,381**	**1,023,751**	**–2,394**	**–2,199**	**0**	**0**	**23,315**	**2,157,239**
Net income	0	0	571,728	0	0	0	5,049	1,542	578,319
Other comprehensive income (OCI)	0	0	0	1,093	–816	616	0	0	893
Total comprehensive income for the year	**0**	**0**	**571,728**	**1,093**	**–816**	**616**	**5,049**	**1,542**	**579,212**
Adjustment of non-controlling interests	0	0	–711	0	0	0	0	–226	–937
Share capital increase in exchange for contributions in kind	189	4,757	–3,617	0	0	0	0	–1,329	0
Dividend payment	0	0	–94,140	0	0	0	0	0	–94,140
Guaranteed dividend	0	0	0	0	0	0	0	–1,218	–1,218
Share capital increase in exchange for cash contributions	8,500	213,592	0	0	0	0	0	0	222,092
Transaction costs associated with the share capital increase, after taxes	0	–1,513	0	0	0	0	0	0	–1,513
Issuance of hybrid capital	0	0	0	0	0	0	600,000	0	600,000
Transaction costs associated with the hybrid capital, after taxes	0	0	0	0	0	0	–9,156	0	–9,156
Distribution to hybrid capital providers	0	0	1,259	0	0	0	–5,049	0	–3,790
Withdrawal from capital reserves	0	–79,703	79,703	0	0	0	0	0	0
Capital contributions/ redemptions in connection with share-based payments	0	–533	0	0	0	0	0	0	–533
Other	0	60	–602	0	0	0	0	–67	–609
Change during the period	**8,689**	**136,660**	**553,621**	**1,093**	**–816**	**616**	**590,844**	**–1,299**	**1,289,408**
31/12/2019	**112,074**	**1,148,041**	**1,577,372**	**–1,301**	**–3,015**	**616**	**590,844**	**22,016**	**3,446,647**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS OF TLG IMMOBILIEN AG

A.1 INFORMATION ON THE COMPANY

TLG IMMOBILIEN AG, Berlin, is an Aktiengesellschaft (stock corporation) in Germany with its headquarters at Hausvogteiplatz 12, 10117 Berlin, Germany, entered in the commercial register of Berlin under the number HRB 161314 B, and is – together with its subsidiaries, the TLG IMMOBILIEN Group (short: TLG IMMOBILIEN) – one of the largest providers of commercial real estate in Germany.

The main activities consist of the operation of real estate businesses and transactions of all types in connection with this, as well as the letting, management, acquisition, disposal and development of office, retail and hotel properties, either itself or via companies of which the company is a shareholder.

A.2 PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared in accordance with Sec. 315e HGB with consideration for the supplementary commercial regulations and in conjunction with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as adopted by the European Union.

The consolidated financial statements comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements. The individual items are explained in the notes.

The currency of the consolidated financial statements is the euro.

Unless stated otherwise, all amounts are given in thousands of euros (EUR k). In tables and references – for reasons of calculation – there can be rounding differences to the mathematically exactly determined figures.

The financial statements of TLG IMMOBILIEN AG and its fully consolidated subsidiaries form the basis of the consolidated financial statements prepared for the 2019 financial year. The financial statements of the subsidiaries are prepared using uniform accounting and measurement methods as at the same reporting date as the financial statements of the parent company. The consolidated financial statements were prepared by the Management Board by 27 March 2020. The Supervisory Board is expected to approve the consolidated financial statements in its meeting on 27 March 2020.

The compilation of the consolidated financial statements is generally carried out on the basis of assets and debts entered in the statement of financial position at amortised or historical cost. In particular, this does not apply to investment properties or derivative financial instruments that are measured at fair value on the reporting date.

The consolidated financial statements as well as the report on the position of the company and the Group will be published in the electronic version of the German Federal Gazette (Bundesanzeiger).

B. ACCOUNTING STANDARDS

B.1 NEW AND AMENDED STANDARDS APPLIED BY THE GROUP

IFRS 16 – Leases

The International Accounting Standards Board published the final version of IFRS 16 (Leases) in January 2016.

IFRS replaces the previous classification of leases by lessors as operating or finance. Instead, IFRS 16 introduces a single lessee accounting model whereby a lessee is generally obliged to recognise a liability and a corresponding right of use to the leased property. This means that leases which were not previously recognised must now be recognised in a statement of financial position – largely similar to the recognition of financial leases so far.

However, the approach of IAS 17 (Leases) which differentiates between operating and finance leases continues to apply to lessors. The list of criteria for assessing a finance lease has been adopted as-is from IAS 17.

The Group started applying IFRS 16 (Leases) on 1 January 2019, the initial application date of the new standard, in accordance with the modified retrospective method. The comparative figures from the previous year have not been adjusted. As a lessee, the Group utilises the recognition exemptions provided by IFRS 16.5 and, as such, does not apply IFRS 16.22 to IFRS 16.49 to leases with a contractual term of twelve months or less or to leases (on a case-by-case basis) in which the underlying asset is of low value.

As part of the transition to IFRS 16, right-of-use assets of EUR k 3,752 were recognised on 1 January 2019 alongside liabilities for leases in the same amount. Based on the operating leases as at 31 December 2018, the reconciliation with the opening value of the liabilities for leases as at 1 January 2019 was as follows:

Reconciliation of liabilities for leases in EUR k	**2019**
Obligations from operating leases as at 31/12/2018[1]	**5,183**
Short-term leases	95
Discounting of the total interest rate for liabilities as at the date when IFRS 16 was first applied	1,336
Newly recognised liabilities for leases as at 01/01/2019 according to IFRS 16	**3,752**

[1] Corrected value

The weighted average total interest rate for liabilities which was used to determine the liabilities for leases as at 1 January 2019 was 2.90%.

Right-of-use assets are recognised separately from other assets in the line item “Right-of-use assets”. Liabilities for leases are recognised in the line item “Other non-current liabilities”. Information on the right-of-use assets and liabilities for leases is available along with other disclosures below the corresponding line items in sections E.2 Property, plant and equipment and intangible assets, E.17 Liabilities and H.5 Liquidity risks.

In the 2019 financial year, the right-of-use assets and liabilities for leases recognised according to IFRS 16 had the following effects on the consolidated statement of comprehensive income:

Amounts recognised in the consolidated statement of comprehensive income in EUR k	**01/01/2019–31/12/2019**
Depreciation of right-of-use assets	**454**
Interest expenses for liabilities for leases	99
Expenses for short-term leases	102
Expenses for leases of low-value underlying assets	**4**

The change in the disclosure of expenses for leases has also resulted in a shift of EUR k 414 from the cash flow from financing activities in favour of the cash flow from operating activities.

The accounting and measurement methods modified by IFRS 16 are presented in the sections D.6 Recognition of leases by the lessee and D.7 Recognition of leases by the lessor.

IFRIC interpretation 23 – Uncertainty over Income Tax Treatments

The interpretation applies to the recognition of income taxes according to IAS 12 where there is uncertainty over the acceptable income tax treatment. It does not apply to taxes or contributions which do not fall under the scope of IAS 12 and does not address interest and penalties in connection with uncertain tax treatments. The interpretation addresses the following aspects in particular:

- Determination whether each tax treatment should be considered independently by an entity
- The assumption an entity makes with regard to the examination of tax treatments by taxation authorities
- Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- Effect of changes in facts and circumstances

The Group must determine whether each uncertain tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

The Group makes discretionary decisions when identifying uncertainties with regard to income tax treatment and has examined whether the interpretation had an effect on its consolidated financial statements.

When applying the interpretation for the first time, the Group considered whether uncertain tax items existed, e.g. in connection with transfer prices.

On the basis of its tax compliance analysis, the Group came to the conclusion that the tax treatments it and its subsidiaries apply are likely to be accepted by the taxation authorities. The interpretation had no effect on the consolidated financial statements.

B.2 NEW ACCOUNTING STANDARDS

Published IFRS whose application is not yet obligatory

New and amended IFRS and interpretations whose application is not yet mandatory and which are not applied prematurely by the Group

EU endorsement	Standards/interpretations	Content	Applications for financial years from/after	Likely effects on the TLG Group
29/11/2019	Amendments to IAS 1 and IAS 8	Definition of material	01/01/2020	None
Not yet adopted	Amendments to IFRS 3	Definition of a business	01/01/2020	None
15/01/2020	Amendments to IAS 39, IFRS 9 and IFRS 7	Interest rate benchmark reform	01/01/2020	None
n/a	Conceptual framework	Revised definitions as well as new guidance on measurement and derecognition, presentation and disclosure	01/01/2020	None
29/11/2019	Conceptual framework	Amendments to references to the conceptual framework in IFRS standards	01/01/2020	None
Not yet adopted	IFRS 17	Insurance contracts	01/01/2021	None
Not yet adopted	IAS 1	Amendments to the criteria for classifying a liability as current or non-current	01/01/2022	Currently none
Not yet adopted	Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Still outstanding	None

C. PRINCIPLES OF CONSOLIDATION

C.1 METHODS OF CONSOLIDATION

Subsidiaries

TLG IMMOBILIEN AG and all significant subsidiaries of which TLG IMMOBILIEN AG could have direct or indirect control are included in the consolidated financial statements of the TLG IMMOBILIEN Group. Subsidiaries are fully consolidated from the time TLG IMMOBILIEN AG gains control of them. Control is gained at the time the following conditions have been cumulatively fulfilled:

(1) TLG IMMOBILIEN AG has power of disposition to control the relevant activities of the subsidiary.

(2) TLG IMMOBILIEN AG is subject to variable return flows from this subsidiary.

(3) TLG IMMOBILIEN AG has the ability to influence the variable return flows through its power of disposition.

The financial statements of the subsidiaries are prepared in a uniform manner using the accounting and measurement methods of TLG IMMOBILIEN AG.

The consolidation of capital is carried out using the acquisition method, whereby the acquisition costs at the time of acquisition are offset against the equity capital corresponding to the amount of the shareholding. In this process, the equity capital of acquired subsidiaries at the time of acquisition is determined under observance of the fair value of the identifiable assets, debts and contingent liabilities, deferred taxes and the possible goodwill at this point in time.

Non-controlling interests

Non-controlling interests represent the portion of the result and the net assets which is not attributable to the shareholders of TLG IMMOBILIEN AG. Non-controlling interests are disclosed separately in the consolidated statement of comprehensive income and in the consolidated statement of financial position. Disclosure in the consolidated statement of financial position occurs under equity, separately from equity attributable to shareholders of the parent company.

Loss of control

If TLG IMMOBILIEN AG loses control of a subsidiary, the assets and liabilities of that subsidiary shall be derecognised along with the related non-controlling interests. The net income is recognised in the statement of profit or loss.

Associated companies

Associated companies are recognised using the equity method. An associated company is an entity over which the owner has significant influence. A joint venture is a joint agreement in which the parties with joint responsibility for the management of the company have rights to the net assets of the agreement. The Group's shares in an associated company or joint venture are recognised using the equity method. According to the equity method, the shares in an associated company or joint venture are measured at historical cost when they are first recognised. The carrying amount of the equity investment is adjusted in order to account for changes to the Group's share of the net assets of the associated company or joint venture since the date of acquisition. The goodwill relating to the associated company or joint venture is part of the carrying amount of the stake and is neither amortised nor tested for impairment.

Transactions eliminated during consolidation

All intra-Group receivables and payables and income and expenses, as well as profit and loss from intra-Group transactions, are eliminated. The net income from transactions with companies recognised using the equity method are eliminated based on the size of the Group's stake in the associate.

C.2 SCOPE OF CONSOLIDATION

Number of fully consolidated subsidiaries	2019	2018
As at 01/01	**54**	**52**
Additions	2	2
Disposals	−10	0
As at 31/12	**46**	**54**

With the purchase and assignment agreement regarding GmbH and KG shares dated 18 March 2019, all shares in the following companies were sold as at the closing on 1 November 2019:

- Greenman 1D GmbH
- WCM Handelsmärkte VIII GmbH & Co. KG
- Aschgo GmbH & Co. KG
- Barisk GmbH & Co. KG
- Berkles GmbH & Co. KG
- WCM Handelsmärkte III GmbH & Co. KG

A preliminary purchase price of EUR k 72,570 was paid as consideration for the sold shares of the subsidiaries and for sold loans of WCM AG. Less the sold net assets of EUR k 67,139, including the upward revaluation of the subsidiaries' properties totalling EUR k 8,020, the preliminary disposal profit is EUR k 5,431. In connection with the sale, other liabilities totalling EUR k 5,439, including for obligations resulting from tax refund claims, have been recognised against the net income from the sale. Overall, a loss of EUR k 8 has resulted from the sale of the shares of the above companies. This is recognised under other operating expenses (see section F.7).

The disposals of the companies resulted in the disposal of the following assets and liabilities from the consolidated statement of financial position:

in EUR k	01/11/2019
Assets	
Non-current assets classified as held for sale	118,054
Trade receivables	153
Other receivables and assets	5
Receivables from income taxes	28
Cash and cash equivalents	6,102
	124,341
Liabilities	
Non-current liabilities due to financial institutions	46,046
Other non-current liabilities	3,659
Deferred tax liabilities	2,263
Current liabilities due to financial institutions	1,343
Trade payables	3,623
Tax liabilities	36
Other current liabilities	234
	57,203
Net assets disposed of	**67,139**

Additional operating facilities worth EUR k 235 were sold to the buyer as part of the sale of the shares.

As at 1 September 2019, TLG IMMOBILIEN AG acquired shares in the joint capital of Aroundtown SA ("Aroundtown"). In accordance with IAS 28, these shares have been consolidated using the equity method as at 31 December 2019. We refer to the disclosures in section E.3 Shares in companies measured at equity.

Multiple mergers also took place in the third quarter of 2019: WCM Technical Services GmbH and WCM Technical Services II GmbH were merged into Main Triangel Gastronomie GmbH with effect from 1 January 2019 and WCM Verwaltungs V GmbH and WCM Verwaltungs VII GmbH were merged into WCM Verwaltungs VI GmbH.

TLG Finance S.à r.l., Luxembourg was established as a subsidiary of TLG IMMOBILIEN AG on 16 July 2019. It was entered into the Trade and Companies Register of Luxembourg on 6 August 2019.

TLG BES GmbH, Berlin was established as a subsidiary of TLG IMMOBILIEN AG on 2 December 2019 in order to expand operating activities. It was entered into the commercial register on 3 December 2019.

For the shareholding list, please see section H.13.

C.3 NON-CONTROLLING INTERESTS

The following table presents information on the Group's subsidiaries with significant non-controlling interests prior to internal elimination.

	WCM Beteiligungs- und Grundbesitz Aktiengesellschaft, Frankfurt/Main	
in EUR k	31/12/2019	31/12/2018
Percentage of non-controlling interests	**7.47%**	**8.41%**
Non-current assets	737,007	835,471
Current assets	94,506	32,020
Non-current liabilities	–211,187	–458,451
Current liabilities	–277,769	–80,845
Net assets	**342,557**	**328,195**
Net assets of non-controlling interests	**25,590**	**27,590**
Income from letting activities	55,957	57,862
Expenses relating to letting activities	–20,961	–20,286
Earnings before taxes	29,016	38,224
Income taxes	–9,337	–3,747
Net income	**19,679**	**34,477**
Profit allocated to non-controlling interests	1,470	2,898
Dividends paid to holders of non-controlling interests	1,223	0
Cash flow from operating activities	19,588	21,086
Cash flow from investing activities	56,659	–8,643
Cash flow from financing activities	–10,749	–1,774
Net increase (net decrease) in cash and cash equivalents	**65,497**	**10,669**

In the 2019 financial year, the percentage of non-controlling interests decreased by 0.94% as other shareholders of WCM AG accepted the swap offer of 9 February 2018 and swapped their shares for shares of TLG IMMOBILIEN. Additionally, 195,585 shares of WCM AG have been acquired on the free market.

D. EXPLANATION OF ACCOUNTING AND MEASUREMENT METHODS

D.1 INVESTMENT PROPERTY

TLG IMMOBILIEN identifies investment properties as those properties which are held with the objective of rental income and/or value increases and not for its own use or sale within the framework of the typical business activities.

TLG IMMOBILIEN holds properties which are partially owner-occupied and partially occupied by third parties, i.e. rented. These mixed-use properties are entered separately in the statement of financial position as long as a legal means of dividing the property exists and neither the owner-occupied nor the rented portion is negligible.

A transfer of properties from the portfolio of investment properties occurs if a change in use is on hand, which is documented by the commencement of owner occupation or the commencement of development with the intention to sell.

At the time of inclusion, the investment properties are entered in the statement of financial position with their acquisition or production costs. The properties are subsequently entered in the statement of financial position at their fair value according to their voting right provided for by IAS 40 in connection with IFRS 13. Pursuant to IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This means that the fair value generally implies the sale of an asset (the exit price). It corresponds to the (theoretical) price paid to the seller upon the (hypothetical) sale of a property on the measurement date, regardless of any company-specific intention or ability to sell the asset.

The measurement of the fair value is carried out in principle on the basis of the highest and best use of the property ("Concept of the highest and best use"; IFRS 13.27 et seq.). This implies the maximisation of the use and/or value of the property to the greatest extent technically possible, allowable by law and financially feasible.

All changes in the fair values of investment properties are recognised through profit or loss for the period.

The fair value of the investment property was determined on the basis of a valuation performed in full by Savills Advisory Services Germany GmbH & Co. KG for 31 December 2019. For 31 December 2018, the valuation of the property portfolio taken over from WCM was performed by Cushman & Wakefield LLP for the last time and by Savills Advisory Services Germany GmbH & Co. KG for the rest of the property portfolio. The external valuation experts operate impartially from personal, financial and all other perspectives.

The market values of properties which are held over the long term for the purpose of rental income or for the purpose of increasing value (portfolio properties with sustainable incomes) are determined in accordance with international standards by using the discounted cash flow (DCF) method. Using this method, the market value of a property results from the sum of the discounted cash flow of a – determined by practical experience – planning period of ten years plus the residual value of the property discounted on the valuation date at the end of the planning period, which is determined on the basis of the sustainable net cash flows from the property’s management.

Properties under construction are measured using the residual method. When this method is used, the development/manufacturing costs including the developer’s margin are subtracted from the notional market value based on the expected income from the intended conversion or development. The difference is the residual value or market value.

Likewise, portfolio properties with economically useful buildings already on the plot of land and with sufficiently certain development potential (“Concept of the highest and best use”; IFRS 13.27 et seq.) are measured using the residual method.

The valuation of undeveloped plots of land is carried out using the comparable value method with consideration for official land values of the local property value committees. The residual method is also used in individual cases in which the potential usage purpose has been assured under the building regulations.

Properties with negative cash flows (e.g. properties that have been vacant in the long term) and underused properties in specific cases (if their usage purpose has been assured under the building regulations) are measured using the liquidation value method. The land value is derived in the same way as for undeveloped land, although removal expenses and potentially also remaining net income are taken into account too.

Due to the limited availability of data and valuation parameters directly observable on the market, the complexity of property valuation as well as the heterogeneousness of properties, the valuation at fair value of investment properties is allocated to Level 3 of the fair value hierarchy of IFRS 13.86 (valuation on the basis of significant unobservable input factors).

In particular, the following significant non-observable input factors are considered for the valuation:

- Future rental agreements, based on the individual location, type, size and quality of the property, under consideration of the conditions of existing rental relationships, other contracts or external indicators such as normal market rents for comparable properties
- Estimates on vacancy rates, based on current and expected future market conditions after the expiry of existing rental relationships
- Discounted interest rates for the planning period of ten years reflect the current market estimations regarding uncertainty of the amount and the timing of the inflow of future cash flows
- Capitalisation rates, based on the individual location, type, size and quality of the property, with consideration for market information available on the date in question
- Residual values, in particular based on assumptions on future maintenance and reinvestment costs, vacancy rates and normal market rents and growth rates
- Costs of construction work such as renovations for tenants in connection with future new rental agreements, measures designed to preserve the quality of the property, renovations, modernisations and development projects based on current and expected future market conditions

D.2 PROPERTY, PLANT AND EQUIPMENT

Assets included in property, plant and equipment are recognised at their acquisition or production costs and amortised on a linear schedule according to their presumable useful life. Subsequent recognition occurs if this is associated with an increase in the useful value of the tangible asset. The useful life of an asset is audited annually, along with any residual value, and adjusted if necessary.

Subsidies received are deducted during calculation of the historical costs.

Depreciation and amortisation is carried uniformly across the Group pursuant to the following useful lives:

Useful life of property, plant and equipment in years	2019	2018
Owner-occupied properties	50–60	50–60
Technical equipment and machines	8–15	8–15
Other furniture and fixtures	3–13	3–13

Impairment tests are carried out on the carrying amounts of the property, plant and equipment as soon as there are indicators that the carrying amount of an asset has exceeded its recoverable amount. Property, plant and equipment is removed from the books either when disposed or when no economic benefit can be expected from its continued use or sale. The gain or loss resulting from the removal of the asset from the books is recognised through profit or loss in the consolidated statement of comprehensive income.

D.3 INTANGIBLE ASSETS

Intangible assets are capitalised at their historical cost.

Goodwill is the positive difference between the acquisition costs of the shares and the fair value of the individual assets acquired and liabilities and contingent liabilities assumed.

The goodwill resulting from the allocation of the purchase price is allocated to cash-generating units which will most likely derive value from the merger.

The goodwill is not subject to amortisation; it undergoes an annual impairment test instead. The goodwill which largely resulted from the acquisition of WCM had been fully amortised as at the end of 2018. According to IAS 36.124, impairment losses for goodwill may not be reversed in subsequent financial years.

D.4 IMPAIRMENTS OF NON-FINANCIAL ASSETS

Every year, intangible assets and property, plant and equipment are tested for impairment in accordance with IAS 36 and companies measured at equity are tested for impairment in accordance with IAS 28. These tests determine if there are indicators of a possible impairment. If this is the case, the recoverable amount for the asset in question is calculated as the higher value on the basis of the fair value less disposal costs or the value in use. If the recoverable amount of an asset is lower than the carrying amount, a valuation allowance is immediately carried out on the asset through net profit or loss.

In the financial year, there was no occasion to carry out an impairment test on property, plant and equipment, intangible assets with a certain useful life or companies measured at equity as there were no indicators of impairment or cases of damage.

For goodwill acquired through the acquisition of companies and businesses, TLG IMMOBILIEN AG carries out the impairment test annually and also whenever there are indicators of possible impairment.

In the impairment test, any derivative goodwill arising from a corporate acquisition is allocated to the individual cash-generating units that are likely to profit from the synergies generated by the merger. If the carrying amount of the cash-generating unit including the proportional goodwill allocated to it exceeds its recoverable amount, the difference must be deducted from the goodwill allocated to that cash-generating unit. The write-downs of the goodwill may not be reversed at a later date. If the impairment of the cash-generating unit exceeds the carrying amount of the goodwill allocated to it, the additional impairment must be recognised by proportionately impairing the carrying amounts of the assets allocated to the cash-generating unit. However, the carrying amount of an asset may not fall below its fair value less costs of disposal, its value in use (if this can be determined) or to a value below zero.

D.5 OTHER FINANCIAL ASSETS

Generally, financial assets are accounted for on the trading day. Available-for-sale financial assets are measured at fair value on the reporting date or, if the fair value cannot be reliably determined, at cost.

D.6 RECOGNITION OF LEASES BY THE LESSEE

IFRS 16 introduces a single lessee accounting model. According to IFRS 16, a contract is a lease if it grants the right to use an asset for a period of time in exchange for consideration. From the date on which the lessor hands the asset over to the lessee for use, the lessee must recognise a liability and a corresponding right of use to the leased asset (a “right-of-use asset”). The liability for the lease is recognised as a liability equal to the present value of the future lease payments. The historical cost of the right-of-use asset consists of the liability for the lease and any other components. The right-of-use asset is depreciated on a straight-line basis over the term of the contract or over its useful life if shorter. The current lease payments are split into an interest and a principal component and reduce the liability for the lease accordingly.

The right-of-use asset is recognised separately from other assets in the line item “Right-of-use assets”. Liabilities for leases are recognised in the line item “Other non-current liabilities”.

The TLG IMMOBILIEN Group utilises the recognition exemptions provided by IFRS 16.5 and, as such, does not recognise right-of-use assets or liabilities for leases for leases with a contractual term of twelve months or less or to leases (on a case-by-case basis) in which the underlying asset is of low value. The expenses resulting from such contracts are recognised through profit or loss when the leased objects are used.

D.7 RECOGNITION OF LEASES BY THE LESSOR

According to IFRS 16, the approach set out by IAS 17 (Leases) which differentiates between operating and finance leases continues to apply to lessors. The list of criteria for assessing a finance lease has been adopted as-is from IAS 17.

Under IFRS 16, rental agreements for the properties are to be categorised as operating leases as the significant risks and opportunities in connection with the property remain with the TLG IMMOBILIEN Group.

The income from operating leases is recognised as net operating income from letting activities in the statement of comprehensive income across the term of each contract.

D.8 INVENTORIES

Inventories include land and buildings intended to be sold as part of the normal course of business. This can exceed a period of twelve months. Upon acquisition, inventories are measured at historical cost. On the reporting date, inventories are measured at the lower of historical cost or net realisable value.

The net realisable value comprises the estimated sale proceeds that can be achieved in the normal course of business, less the estimated costs accrued until completion and the estimated necessary selling expenses.

See section D.22 for the treatment of borrowing costs.

D.9 RECEIVABLES AND OTHER ASSETS

Trade receivables and other assets are recognised at fair value plus transaction costs when they are first added to the statement of financial position. The subsequent measurement is at amortised cost.

The Group uses the simplified impairment model of IFRS 9 to determine the expected credit losses from trade receivables and other receivables from tenants. It therefore forms a risk provision equal to the lifetime ECL (expected credit loss) upon initial recognition and on every subsequent reporting date. IFRS 9 defines the lifetime ECL as the expected credit losses that arise if borrowers default on their obligations at some time during the expected life of the financial asset.

D.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, demand deposits and other current, highly liquid financial assets with an original term of up to three months, as well as overdrafts. Exploited overdrafts are recognised in the statement of financial position under current liabilities due to financial institutions.

Restricted credit is recognised under financial assets if it cannot be recognised under cash and cash equivalents.

D.11 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The item “Assets classified as held for sale” can contain individual non-current fixed assets as well as groups of assets (disposal groups) or corporate components (discontinued operations) if a disposal is considered highly probable within the next twelve months. Furthermore, assets are only classified in line with IFRS 5 if, in their present condition, they can be immediately disposed of at a standard and acceptable price for the sale of such assets. In practice, these criteria on individual investment properties are considered met if a notarised purchase contract exists on the reporting date, even if the transfer of benefits and encumbrances is due to take place in a subsequent period.

Liabilities which are being disposed of as part of the planned sale are a component of the disposal group or discontinued operation and are disclosed separately.

In accordance with IFRS 5, the assets classified as held for sale are measured at the lower of their carrying amount or fair value. Investment property recognised under assets classified as held for sale is measured at fair value in line with IAS 40.

D.12 LIABILITIES DUE TO FINANCIAL INSTITUTIONS AND CORPORATE BONDS

When first included in the statement of financial position, liabilities due to financial institutions are recognised at fair value less the transaction costs directly linked to the loan. After initial recognition, interest-bearing loans are valued by using the effective interest rate method at amortised cost. Gains and losses are recognised through profit or loss at the time the liabilities are written off as well as during amortisation.

Changes to rates in terms of the amount and/or date of interest and repayments will result in the recalculation of the carrying amount of the liability in the amount of the cash value and on the basis of the originally determined effective interest rate. The difference between this and the previous carrying amount of the liability is recognised through profit or loss.

If changes to rates lead to significantly different contractual conditions according to IFRS 9.B.3.3.6, the original liability is treated, in accordance with IFRS 9.3.3.2, as though it were completely repaid. Subsequently, a new liability is then recognised at fair value.

D.13 PENSION PROVISIONS

Pension provisions result from obligations towards employees. The pension scheme in the Group involves both defined contributions and defined benefits.

The expenses for the benefits provided through the defined benefit schemes are determined using the projected unit credit method. This method factors in the known pensions and earned credits towards future pension payments on the reporting date, as well as the expected future increases in salaries and pensions. An actuarial valuation is carried out for each measurement date.

The Company Pension Act (BetrAVG) forms the regulatory framework in Germany; pension increases are therefore based on inflation. Some commitments have a guaranteed interest rate of 1.0% p.a., in which case no other trend is recognised. TLG IMMOBILIEN bears the actuarial risks such as the longevity risk, the interest risk and the inflation risk. TLG IMMOBILIEN is not exposed to any other plan-specific risks.

Actuarial gains and losses are entered in the statement of financial position completely within the period of their origination and listed separately under other reserves. The actuarial gains and losses are no longer entered in the statement of financial position in subsequent periods.

The amount of pension benefits promised under the defined benefit plans is based on the allowable length of service and the agreed pension component.

The interest rate effect contained in the pension expenses is recognised under interest expenses in the consolidated statement of comprehensive income. The service cost is recognised under personnel expenses.

In line with the statutory regulations, TLG IMMOBILIEN pays contributions to statutory pension schemes for defined benefit plans. The ongoing contributions are recognised under personnel expenses as social security contributions. Once the contributions are paid, the Group has no further benefit obligations.

D.14 SHARE-BASED PAYMENTS

As compensation for work performed and as an incentive to build long-term ties with TLG IMMOBILIEN, the Management Board and selected managers of the Group receive share-based payments in the form of a long-term incentive (LTI) scheme. The LTI entitles the beneficiary to an amount of remuneration determined by the price of the shares of the company. As such, it is a share-based payment transaction in the sense of IFRS 2.

Claims under the LTI plan are settled in cash, rendering it a cash-settled plan.

In accordance with IFRS 2.30, cash-settled plans require the recognition of a provision in the income statement over the vesting period. The expenses are recognised as personnel expenses. On every reporting date, a suitable measurement method must be used to measure the fair value of the liability and the provision must be adjusted to that value.

For a description of the LTI scheme, see section H.10 and the remuneration report in the management report.

D.15 OTHER PROVISIONS

Other provisions are recognised when a legal or factual obligation of the TLG IMMOBILIEN Group consists of a past event, and the outflow of resources is probable and a reliable estimation of the amount of the obligation is possible. Provisions are discounted if this results in a significant effect. Effects from discounting provisions over time are recognised in interest expenses. The discount rate corresponds to an interest rate, before taxes, which reflects the current market expectations as well as the risks specific to each debt.

D.16 DERIVATIVE FINANCIAL INSTRUMENTS

In the TLG IMMOBILIEN Group, derivative financial instruments are used to cover interest rate risks from real estate financing. TLG IMMOBILIEN only hedges against cash flows resulting from future interest payments. Derivative financial instruments are recognised at fair value. Changes in the fair values of the derivative financial instruments are recognised through profit or loss as long as there is no hedging relationship in the sense of IFRS 9.

All hedging relationships were discontinued at the start of the second quarter of 2017. Ever since, all changes in market values are presented through the item “Result from the remeasurement of derivative financial instruments”. The changes in market value that have been presented as other comprehensive income and allocated to an equity reserve in prior periods will be reversed on a pro-rata basis over the remaining term of each underlying transaction. If the underlying transaction ceases to exist, the amounts that are still in other comprehensive income are immediately recognised through profit or loss.

D.17 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other current primary financial instruments, the fair values correspond approximately to the carrying amounts in the statement of financial position on each key date.

With regard to non-current receivables and other assets and liabilities, the fair value is determined on the basis of the expected cash flows using the applicable reference interest rates on the date of the statement of financial position. The fair values of the derivative financial instruments are calculated on the basis of the reference interest rates plus their own risks and the counterparty risk on the accounting date.

For financial instruments to be recognised at their fair value, the fair value is generally calculated using the corresponding market and stock exchange rates. If no market or stock exchange rates are available, the fair value is measured using standard measurement methods with consideration for instrument-specific market parameters. The fair value is calculated using the discounted cash flow method, whereby individual credit ratings and other market conditions are taken into account in the form of conventional liquidity spreads when calculating the present value.

The relevant market prices and interest rates observed on the reporting date – and obtained from recognised external sources – are used as input parameters for the measurement models when calculating the fair value of derivative financial instruments.

D.18 DETERMINATION OF FAIR VALUE

Under IFRS 13, the fair value is the price obtained from selling an asset or paid for transferring a liability on the principal market or, where no principal market exists, the most advantageous market. The fair value is to be calculated using measurement parameters as inputs which are as close to the market as possible. The fair value hierarchy categorises the inputs used in valuation techniques into three levels, based on their proximity to the market:

- Level 1: The (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. the price) or indirectly (i.e. derived from the price)
- Level 3: Measurement parameters based on unobservable inputs for the asset or liability

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

The company checks for transfers between the levels at the end of each financial year. In the 2019 financial year, just as in the previous year, there were no transfers between individual input levels.

The fair value calculation of investment property is categorised under Level 3 of the measurement hierarchy of IFRS 13.86 (measurement on the basis of unobservable input factors). We refer to the explanations on the measurement of investment property in sections D.1 and E.1. See sections D.16 and H.1 in connection with the measurement of derivative financial instruments.

In summary, the fair value hierarchy is as follows:

	Level 2	Level 3
Other non-current financial assets		x
Investment property		x
Liabilities due to financial institutions	x	
Derivative financial instruments	x	

D.19 RECOGNITION OF INCOME AND EXPENSES

Income from letting activities where the property's rental agreement or lease is classified as an operating lease is recognised as a straight line over the term of the contract. Rental concessions are recognised in net loss, under total revenue from letting activities, over the term of the rental agreement or lease.

Furthermore, the net operating income from letting activities contains income from the recharging of operating costs, in so far as the rechargeable costs and the amount of income can be reliably determined and the services have been rendered.

The income from operating costs must be divided into separate lease components and non-lease components. Lease components are elements of the consideration for the rental relationship and therefore increase rental income. This applies to land tax and building insurance as types of operating costs. TLG IMMOBILIEN has the role of principal for all other types of operating costs as the inventory risk is always borne by TLG IMMOBILIEN, especially in the event of vacancies.

Income from the disposal of property is recognised once the significant risks and opportunities associated with the property have transferred to the purchaser. The economic transfer of ownership can generally be implied once the essential ownership rights, rights of use and power of disposal have transferred to the purchaser. Turnover is not realised as long as there are still major benefit obligations, yield guarantees or a right to return on the part of the purchaser.

Operating expenses are recognised through net loss when the service is rendered or on the due date of their accrual.

Interest is recognised as a gain or loss on an accrual basis.

D.20 GOVERNMENT GRANTS

Government grants are recognised only when there is sufficient certainty that the grant will be received and that the entity will comply with the conditions attached to the grant. The grant is recognised as income over the period necessary to match it with the related costs, which it is intended to compensate, on a systematic basis.

Investment subsidies are grants intended to facilitate the acquisition or creation of an asset. The TLG IMMOBILIEN Group deducts them from the historical cost of the asset on the assets side of the statement of financial position. As the resulting amount of depreciation is lower, the grants are spread proportionally over the useful life of the asset, provided that it is subject to depreciation or amortisation.

Ongoing subsidies intended to cover maintenance, rental and expenditure are recognised in net profit. They are recognised under other operating income.

D.21 CURRENT AND DEFERRED TAXES

Income taxes represent the sum of current and deferred taxes.

Current tax expenses are determined on the basis of the taxable income for the year. The taxable income differs from the net income from the consolidated statement of comprehensive income due to income and expenses which are tax-deductible, untaxable or taxable in later years. The liabilities and provisions of the Group for current taxes are calculated on the basis of the current tax rates.

Deferred taxes are recognised for the differences between the carrying amounts of the assets and liabilities in the consolidated financial statements and the corresponding taxable values as part of the calculation of taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences; deferred tax claims are recognised in so far as it is likely that taxable gains exist for which the deductible temporary differences can be used. Deferred tax claims also include reductions in tax resulting in subsequent years from the expected use of existing taxable loss carryforwards (or similar items) and whose realisation is ensured with a sufficient degree of certainty. Furthermore, deferred taxes are recognised for outside basis differences if the criteria are met.

Deferred tax liabilities and claims are calculated on the basis of the tax rates (and tax legislation) which will probably be in force when the liability is settled or the asset is realised. The tax regulations passed by the German Bundestag and Bundesrat and those in force on the reporting date are used as a reference. The measurement of deferred tax claims and liabilities reflects the tax consequences which could result from the way the Group expects to settle the liability or realise the asset on the reporting date.

Current or deferred taxes are recognised in profit or loss in the consolidated statement of profit or loss unless they are being recognised in connection with items of other comprehensive income or equity. In such a case, the current and deferred taxes are also to be recognised in other comprehensive income or directly in equity.

Deferred tax claims and deferred tax liabilities are offset if the Group has an enforceable legal claim to offset actual tax refund claims against its actual tax liabilities and if the deferred tax claims and liabilities concern income tax which will be collected by the same tax office and which concerns the same tax subject.

Naturally, the calculation of actual and deferred taxes is subject to certain unknown factors which require estimates and discretionary decisions. New information might become available in future periods which incites the Group to examine the appropriateness of discretionary decisions; such a change can affect the amount of tax liabilities and future tax expenses.

D.22 BORROWING COSTS

If qualifying assets exist, borrowing costs are capitalised if they are significant.

D.23 MAJOR DISCRETIONARY DECISIONS AND ESTIMATES

The application of accounting and measurement methods requires the management to make assumptions and estimates which will influence the carrying amounts of the recognised assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities.

The inherent uncertainty of these assumptions and estimates can lead to events which will necessitate adjustments to the carrying amounts or disclosure of certain assets and liabilities in the future.

This applies to the following issues in particular:

- The measurement of investment property: The expected cash flows, the presumed vacancy rate, the discount rate and the capitalisation rate in particular represent significant measurement parameters. Items are measured using the discounted cash flow method, whereby future cash flows are discounted on the reporting date. These estimates contain assumptions as to the future. Given the number of properties in question and their geographical distribution, individual measurement uncertainties generally cancel one another out statistically. The measurements are made by an external valuation expert on the basis of publicly available market data as well as on the basis of the extensive knowledge of the TLG IMMOBILIEN Group in each regional sub-market. Please see section E.1.

- Whether or not deferred tax assets can be recognised: These are recognised if it is likely that future tax advantages can be realised. The actual amount of taxable income in future financial years and the actual usefulness of deferred tax assets might deviate from expectations as at the date on which the deferred assets were capitalised. Please see section E.15.

- Measurement at equity: TLG IMMOBILIEN's share of the joint capital of Aroundtown (approx. 15.03%) is measured using the equity method although TLG IMMOBILIEN held less than 20% of the voting rights as at 31 December 2019. As the company was already promised a seat on the management board of Aroundtown as part of the share acquisition and as this has made it possible to exercise significant influence, the interest in Aroundtown is measured using the equity method in accordance with IAS 28.6. Mr Ran Laufer was appointed officially as the member of the supervisory board assigned by TLG IMMOBILIEN in the general meeting on 16 December 2019. Please see section E.3.

Furthermore, the following general assumptions and estimates are of lesser significance:

- For assets which are to be disposed of, the company must determine whether they can be sold in their current condition and whether their disposal can be considered highly probable in the sense of IFRS 5. If this is the case, the assets and, if necessary, their related liabilities must be recognised and measured as assets or liabilities held for sale.

- The recognition and measurement of other provisions: With regard to recognition and measurement, there is uncertainty regarding future increases and the amount, date and probability of each provision being required.

- Share-based payments: In accordance with IFRS 2, the costs of providing share-based payments in cash-settled plans are measured at fair value as at the date on which they are paid and on each subsequent reporting date. For the purposes of calculating the provision, the most suitable estimation method must be determined; this method is partially based on assumptions.

- Operating cost account: There is uncertainty in the determination of deferred operating costs for properties newly added to the portfolio.

More detailed disclosures on estimates and assumptions can be found in the information on the individual items. All assumptions and estimates are based on the circumstances and judgements on the reporting date.

The estimate regarding future business developments also factored in the realistically expected future economic environment in the sectors and regions in which the TLG IMMOBILIEN Group operates. Although the management assumes that the assumptions and estimates it used are reasonable, any unforeseen changes to these assumptions can influence the net assets, cash flows and financial performance of the Group.

D.24 DISCLOSURE OF BUSINESS SEGMENTS

The business activities of TLG IMMOBILIEN revolve around the letting and operational management of its portfolio of commercial real estate. Its business activities also involve the use of market forces by acquiring and disposing of properties in order to optimise its real estate portfolio.

As part of internal reporting, these activities are allocated to the segment on the letting and operational management of the company's real estate portfolio.

Therefore, in line with the criteria of IFRS 8, only one reportable segment which encompasses all operating activities of the Group, including WCM, was identified. Reports on this segment are regularly submitted to the main decision-makers. The main decision-makers manage the allocation of resources for this segment and are responsible for monitoring its profitability. The main decision-maker of TLG IMMOBILIEN AG is the Management Board.

Revenue is generated by a large number of tenants. More than 10% of the total revenue was generated by one client. In the 2019 financial year, EUR k 26,795 of the total revenue was attributable to this client (previous year EUR k 28,474).

D.25 RECOGNITION OF NON-CONTROLLING INTERESTS

The limited liability capital of non-controlling shareholders is always recognised under other liabilities as liabilities to non-controlling interests in accordance with IAS 32.18(b) in conjunction with IFRS 9.4.2.1.

The other shares of non-controlling shareholders are recognised on the basis of whether the shares are to be presented within equity or liabilities in line with their contractual structures in accordance with IAS 1.54 (q). Primarily, this depends on the extent to which the non-controlling interests participate in the profit or loss of the company through their contractual structures (put options, guaranteed dividends, etc.).

E. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

E.1 INVESTMENT PROPERTY

In the 2019 and 2018 financial years, the carrying amount of the investment property developed as follows:

in EUR k	2019	2018
Carrying amount as at 01/01	**4,067,527**	**3,383,259**
Acquisitions	88,419	140,176
Capitalisation of construction activities and modernisation expenses	52,284	33,070
Change in value of properties held for sale	21,548	7,921
Reclassification as assets held for sale	−155,947	−48,408
Reclassification as property, plant and equipment	0	−1,375
Fair value adjustments	638,366	552,884
Disposals	−4,800	0
Carrying amount as at 31/12	**4,707,397**	**4,067,527**

The portfolio strategy of TLG IMMOBILIEN stipulates the concentration on the asset classes of office and retail, as well as hotels to a more limited extent. Properties that represent key properties for future development measures have been part of the separate invest asset class since 30 June 2019.

The office portfolio focuses on promising A and B-rated locations. Hotel properties are situated in selected central locations and are leased to well-known operators on a long-term basis. The retail portfolio is more widely distributed and is characterised by retail properties in attractive micro-locations, most of which have anchor tenants operating in the field of food retail.

Reclassifications as assets held for sale of EUR k 155,947 took place in 2019 (previous year EUR k 48,408). Besides six properties which have been sold through individual transactions, the reclassifications concerned 29 retail properties which were disposed of as part of disposals of companies. The sales of companies concern six real estate companies of WCM Beteiligungs- und Grundbesitz-AG. With the exception of two properties with a proportional value of EUR k 3,018, the transfer of benefits and encumbrances has taken place for all properties. Of the changes in the value of the properties held for sale amounting to EUR k 21,548 (previous year EUR k 7,921), 37.2% is attributable to properties disposed of as part of sales of companies.

At EUR k 88,419 lower than in the previous year (EUR k 140,176), the acquisitions concern the office property “Westside Office” in Bonn.

Of the additions of EUR k 52,284 (previous year EUR k 33,070) through the capitalisation of construction activities, EUR k 22,652 (previous year EUR k 11,090) is attributable to current measures, EUR k 9,570 (previous year EUR k 11,566) is attributable to renovations for tenants and EUR k 20,062 (previous year EUR k 10,414) is attributable to development measures. The increase in additions from current measures reflects the increased investments in the preservation and improvement of the portfolio.

Around 61% of the capitalisations attributable to development measures took place for the two office projects under construction: “NEO” and “Annenhöfe” in Dresden. Essentially, the other development measures concern preparations for other construction projects as well as expansions and modernisations of food retail properties.

The carrying amounts of the investment property were calculated as at the reporting date on the basis of a valuation performed by Savills Advisory Services Germany GmbH & Co. KG. The following overview presents the applied valuation techniques broken down by asset class.

As at 31/12/2019	Strategic portfolio Office	Retail	Hotel	Invest[1]	Total	Non-strategic portfolio	Total
Discounted cash flow method							
Valuations	54	208	7	5	274	45	**319**
Investment Properties in EUR k	2,076,075	1,078,010	345,542	551,298	4,050,925	228,714	**4,279,639**
Liquidation/comparative value method (official land values)							
Valuations	1	2	0	4	7	19	**26**
Investment properties in EUR k	3,400	6,208	0	74,700	84,308	1,550	**85,858**
Residual method							
Valuations	0	0	0	6	6	0	**6**
Investment properties in EUR k	0	0	0	341,900	341,900	0	**341,900**
Total							
Valuations	**55**	**210**	**7**	**15**	**287**	**64**	**351**
Investment properties in EUR k	**2,079,475**	**1,084,218**	**345,542**	**967,898**	**4,477,133**	**230,264**	**4,707,397**

[1] One independently usable sub-area of a property otherwise valued using the discounted cash flow method has been valued using the residual method. The proportional values have been allocated to each valuation method.

As at 31 December 2019, 13 properties (EUR k 426,208) with development potential have been identified in which a higher use is possible in line with the "concept of the highest and best use" of IFRS 13. Two of these properties (EUR k 35,700) are under construction.

Making up 90.9% of the value, the vast majority of the properties have been valued using the discounted cash flow method. The liquidation/comparative value method on the basis of official land values was used on undeveloped plots of land, developed plots of land with negative cash flows (e.g. properties that had been vacant in the long term) and on underused properties (1.8%). The residual method was applied in six valuations which made up 7.3% of the total value. Use of the residual method requires the future use to have been determined with sufficient certainty and there to be no significant obstacles preventing implementation. Properties under construction are generally measured using the residual method. For the properties measured using the residual method, the outstanding construction costs – including ancillary construction costs and costs of unforeseeable developments – have been estimated at an average of EUR 3,147 per square metre of gross floor area (previous year EUR 2,824 per square metre of gross floor area) and the developer's margin at between 3% (previous year 10%) and 15% (previous year 20%) for the measurement as at 31 December 2019. In line with the lower level of risk, the developer's margins are at the lower end of the scale for properties which are already under construction.

In 2019, the increase in the fair values (remeasurements) totalling EUR k 638,366 (previous year EUR k 552,884) was largely due to the highly dynamic market developments, especially in Berlin, as well as progress in individual property development projects. At 94%, the largest remeasurement is attributable to properties in Berlin. It is the result of strong market rent growth in 2019 which was also reflected by new rental agreements concluded in 2019. This development brought with it a decrease in yields, especially for highly sought-after office locations in Berlin. The remeasurement was almost entirely attributable to the dormant portfolio of investment property. These are properties that were in the portfolio on both 1 January and 31 December 2019, not including acquisitions and reclassifications as assets held for sale carried out in the financial year.

The following overview breaks down key measurement parameters for the dormant portfolio by region from year to year.

Dormant portfolio as at 31/12/2019 versus 31/12/2018[1]	Unit	Berlin	Dresden/ Leipzig/ Rostock	Rhine-Main	Other locations	Total
Investment properties as at 31/12/2019	EUR k	2,181,037	895,021	646,127	896,413	**4,618,597**
Change from 31/12/2019 to 31/12/2018	EUR k	610,527	78,993	13,553	–17,769	**685,304**
Change from 31/12/2019 to 31/12/2018	%	38.9	9.7	2.1	–1.9	**17.4**
Discount rate, Weighted average as at 31/12/2019	%	3.77	4.64	4.26	5.00	**4.24**
Change from 31/12/2019 to 31/12/2018	pp	–0.36	–0.13	–0.01	0.00	**–0.24**
Capitalisation rate, Weighted average as at 31/12/2019[2]	%	4.30	6.04	5.19	6.57	**5.21**
Change from 31/12/2019 to 31/12/2018[2]	pp	–0.54	–0.05	–0.16	0.12	**–0.34**
Annualised in-place rent as at 31/12/2019	EUR k	66,707	50,653	35,711	66,785	**219,856**
Change from 31/12/2019 to 31/12/2018	EUR k	5,297	538	971	–463	**6,343**
Change from 31/12/2019 to 31/12/2018	%	8.6	1.1	2.8	–0.7	**3.0**
Average actual rent as at 31/12/2019[3]	EUR/sqm/month	13.01	9.85	14.79	9.67	**11.11**
Change from 31/12/2019 to 31/12/2018[3]	%	8.7	1.1	2.3	2.0	**3.6**
Average market rent as at 31/12/2019[3]	EUR/sqm/month	16.55	10.99	14.73	9.03	**11.92**
Change from 31/12/2019 to 31/12/2018[3]	%	9.6	5.4	5.1	0.6	**5.1**
EPRA Vacancy Rate as at 31/12/2019	%	1.0	2.4	6.7	4.8	**3.1**
Change from 31/12/2019 to 31/12/2018	pp	–0.9	0.3	–1.7	1.3	**–0.3**
WALT of temporary rental agreements as at 31/12/2019	years	5.4	6.9	5.5	4.9	**5.6**
Change from 31/12/2019 to 31/12/2018	years	–0.5	–0.3	–0.5	–0.3	**–0.4**

[1] Investment property by 31 December 2019 excluding acquisitions in 2019
[2] The capitalisation rate (weighted average) is only calculated for the properties measured using the discounted cash flow method.
[3] The calculation does not include the invest asset class.

With regard to the dormant portfolio, the EUR k 610,527 or 38.9% change in the value of the Berlin portfolio year over year reflects the dynamism of the local market that is underlined by the lower discount and capitalisation rates as well as the higher market rent. Similar – albeit significantly weaker – effects can be seen in Dresden, Leipzig and Rostock, as well as in the Rhine-Main area. The decline in value in the other locations was essentially due to the negative performance of individual neighbourhood shopping centres. The dormant portfolio experienced a EUR k 6,343 or 3.0% increase in annualised in-place rent in 2019 overall at the same time as a 0.3 pp reduction in the EPRA Vacancy Rate to 3.1% and a weighted average lease term (WALT) of 5.6 years.

TLG IMMOBILIEN AG divides its portfolio into a strategic portfolio and a non-strategic portfolio. As at 30 June 2019, the invest asset class was added to the strategic portfolio which initially comprised the office, retail and hotel asset classes. The table below presents the fair values of the investment property by the strategic classification of the portfolio and by asset class by 31 December 2019. For comparative purposes, the overview of the values from the previous year has also been adapted to the new portfolio classifications. Overall, 14 properties which were allocated to the office and retail asset classes in the previous year have been reclassified into the invest asset class. The reclassified office properties made up 77.6% of the carrying amount by 31 December 2018.

	Strategic portfolio						
As at 31/12/2019	Office	Retail	Hotel	Invest	Total	Non-strategic portfolio	Total
Investment properties in EUR k	2,079,475	1,084,218	345,542	967,898	4,477,133	230,264	4,707,397
Discount rate, weighted average in %	4.15	4.89	4.35	3.41	4.19	5.39	4.25
Capitalisation rate, weighted average in %[1]	4.97	6.35	5.32	3.79	5.15	6.59	5.22
Average actual rent in EUR/sqm/month[2]	12.63	10.23	13.71	–	11.63	7.88	11.17
Average market rent in EUR/sqm/month[2]	14.84	9.79	16.38	–	12.68	7.12	11.96
EPRA Vacancy Rate in %	3.4	2.8	2.2	1.0	2.8	6.4	3.1
Proportion of temporary rental agreements in %	97.7	97.6	98.8	98.1	97.8	95.9	97.6

[1] The capitalisation rate (weighted average) is only calculated for the properties measured using the discounted cash flow method.
[2] The calculation is made for the entire strategic portfolio and for the overall portfolio, not taking the invest asset class into consideration.

	Strategic portfolio						
As at 31/12/2018	Office	Retail	Hotel	Invest	Total	Non-strategic portfolio	Total
Investment properties in EUR k	1,756,410	1,081,295	326,740	537,489	3,701,934	365,593	4,067,527
Discount rate, weighted average in %	4.29	4.91	4.37	4.01	4.44	5.17	4.50
Capitalisation rate, weighted average in %[1]	5.28	6.34	5.55	4.63	5.52	6.25	5.58
Average actual rent EUR/sqm/month[2]	11.57	10.19	13.18	–	11.06	7.58	10.42
Average market rent EUR/sqm/month[2]	13.18	9.70	16.13	–	11.83	6.99	10.94
EPRA Vacancy Rate in %	4.4	2.3	3.3	2.0	3.3	3.5	3.3
Proportion of temporary rental agreements in %	97.4	97.4	98.9	97.9	97.6	97.0	97.5

[1] The capitalisation rate (weighted average) is only calculated for the properties measured using the discounted cash flow method.
[2] The calculation is made for the entire strategic portfolio and for the overall portfolio, not taking the invest asset class into consideration.

As at the reporting date, TLG IMMOBILIEN assumes that future fluctuations in fair value will be largely due to factors that lie outside of the discretionary scope of TLG IMMOBILIEN. These factors essentially include the discount and capitalisation rates used in the measurement.

In addition to the calculation of market value, a sensitivity analysis was carried out when the discount and capitalisation rates changed. If the discount and capitalisation rates on which the measurement of the properties was based had increased or decreased by 0.5 percentage points, the values as at 31 December 2019 would have been the following:

Investment properties as at 31 December 2019 – sensitivity analysis

As at 31/12/2019	Investment properties		Discount rate	
Values in EUR k		−0.5%	0.0%	+0.5%
	−0.5%	5,302,434	5,098,664	4,904,904
Capitalisation rate	0.0%	4,927,794	**4,707,397**	4,564,034
	+0.5%	4,626,664	4,454,834	4,290,954

Investment properties as at 31 December 2018 – sensitivity analysis

As at 31/12/2018	Investment properties		Discount rate	
Values in EUR k		– 0.5%	0.0%	+0.5%
	−0.5%	4,418,758	4,234,668	4,060,168
Capitalisation rate	0.0%	4,124,568	**4,067,528**	3,906,048
	+0.5%	3,882,188	3,723,978	3,573,948

The following receivables from minimum lease payments are expected in the next few years on the basis of the agreements in effect as at 31 December 2019:

in EUR k	Due within 1 year	Remaining term > 1 to 5 years	Remaining term > 5 years	Total
31/12/2019	216,566	608,325	426,439	**1,251,329**
31/12/2018	216,214	638,977	520,503	**1,375,694**

In the 2019 financial year, contingent rents in the amount of EUR k 275 (previous year EUR k 831) were collected.

The majority of the investment property is encumbered with collateral for the loans. The properties are generally freely disposable. Financed properties are normally secured by liens on property and are the subject of assignments of rights and claims arising from sales contracts. If a property is sold, the finance is settled by means of an unscheduled repayment if necessary.

E.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The property, plant and equipment and intangible assets are primarily attributable to owner-occupied properties (EUR k 8,119; previous year EUR k 8,104).

The following table shows the individually presented rights of use to assets which have been recognised as fixed assets as part of a lease:

Right-of-use assets in EUR k	Properties	Furniture and fixtures	Total
As at 01/01/2019	**3,353**	**398**	**3,752**
Additions to right-of-use assets	0	141	141
Disposals of right-of-use assets	1,418	0	1,418
Depreciation and amortisation	242	212	454
As at 31/12/2019	**1,694**	**327**	**2,020**

E.3 SHARES IN COMPANIES MEASURED AT EQUITY

On 1 September 2019, TLG IMMOBILIEN AG acquired a 9.99% share of the joint capital of Aroundtown from the Avisco Group ("Avisco") for EUR 1,016 m. Furthermore, it made use of call options on 26 September 2019 and 16 October 2019 and therefore acquired an additional 3.0% and 2.0% of Aroundtown's shares. When the option is used, the price per share corresponds to the purchase price per share of the share acquisition. On 26 and 27 September 2019, TLG IMMOBILIEN AG acquired another 400,000 shares of Aroundtown on the stock exchange.

As such, TLG IMMOBILIEN AG has a 15.03% stake in the joint capital of Aroundtown as at 31 December 2019.

Although TLG IMMOBILIEN AG holds less than a 20% share of the voting rights of Aroundtown as at 31 December 2019, it can exercise significant influence in accordance with IAS 28.6 as a seat on the management board of Aroundtown was granted in 2019. The granting of the seat on the management board had already been agreed and promised as part of the share acquisition on 1 September 2019.

Due to the agreements and the contractual structuring of the options as combined put/call options, they are recognised in such a way that they are considered exercised as at 1 September 2019.

The following table shows summarised earnings and financial statement data of the Aroundtown Group (consolidated financial statements according to IFRS) as well as how they have been taken into account in the consolidated financial statements of TLG IMMOBILIEN:

in EUR k	31/12/2019
Share of ownership of TLG IMMOBILIEN in %	15.03
Non-current assets	21,701,900
Current assets	3,742,800
Non-current liabilities	–11,209,200
Current liabilities	–856,600
Net assets (100%)	13,378,900
Less share of minority shareholders and hybrid capital providers	–3,793,400
Group's share of net assets	1,440,701
Preliminary goodwill	139,940
Carrying amount of the share of companies measured at equity as at 31/12/2019	**1,580,641**

in EUR k	01/01/2019–31/12/2019
Revenue	894,800
Net income	1,709,100
of which attributable to the shareholders of Aroundtown SA	1,308,100
Other comprehensive income (OCI)	9,500
Total comprehensive income for the year	1,718,600
of which attributable to the shareholders of Aroundtown SA	1,317,600

Essentially, the non-current assets comprise investment property (EUR 18,127 m, previous year EUR 14,174 m) which is measured at fair value in accordance with IAS 40 in conjunction with IFRS 13. In particular, the following key assumptions are made to determine the fair value of investment property and sensitivity analyses are used for the measurement:

	31/12/2019	31/12/2018
Discount rate, weighted average in %	5.7	5.7
Capitalisation rate, weighted average in %	5.1	5.3
Market rent growth, weighted average in %	1.8	1.8
Administrative costs in %	2.3	2.2

As a result, the portfolio of investment property of Aroundtown is as follows:

Investment properties as at 31 December 2019

Portfolio overview by asset class As at 31/12/2019	Office	Hotel	Retail	Logistics/ Wholesale/ Other	Land for development and other rights	Total
Investment properties in EUR m	8,675	5,949	1,015	1,311	1,177	**18,127**
Average actual rent in EUR/sqm/year	10.4	14.4	10.3	4.6		**10.3**
EPRA Vacancy Rate in %	11	3.7	9.1	5.5		**7.7**
In-place rental yield in %	4.5	5.2	4.9	5.6		**4.9**
WALT in years	4.4	15	5.8	6.1		**8.6**

Essentially, the non-current liabilities comprise the bonds (EUR 9,138.9 m, previous year EUR 6,351.6 m).

The calculation of the proportionate remeasured equity in Aroundtown and of the goodwill is preliminary as not all of the information needed to determine the fair values of the shares in Grand City Properties SA, the liabilities due to financial institutions, bonds, and deferred taxes was available with the necessary level of detail when the consolidated financial statements of the TLG IMMOBILIEN Group were being prepared in accordance with IFRS.

The following table shows a reconciliation between the summarised financial information and the carrying amount of the Group's shares in Aroundtown:

in EUR k	01/09/2019–31/12/2019
Status initial consolidation	**1,530,208**
Share of consolidated annual result	49,817
Share of other comprehensive income	616
Carrying amount as at 31/12/2019	**1,580,641**

The carrying amount of EUR 1,580.6 m as at 31 December 2019 reflects the amortised cost of the shares as determined on the basis of the net asset value as at the acquisition date (EUR 8.30 per share). As at 31 December 2019, the proportional market capitalisation of the shares was EUR k 1,467,548. The share price was EUR 7.98 per share on the reporting date compared to EUR 7.92 per share on the date of acquisition. In the period between the acquisition of the shares and the reporting date, a high of EUR 8.81 per share was reached on 19 February 2020.

Based on the NAV, the purchase price of the shares corresponds to the value in use of the investment. It reflects the present value of the estimated future cash flows that will likely result from the investment's dividends and the final disposal of the investment. The fair value of the shares of Aroundtown, derived from the share price, was lower than the value in use based on the NAV both on the acquisition date and as at 31 December 2019. Under the impression of the emerging coronavirus pandemic, significant price losses can be observed on the stock markets. The relatively small price fluctuations of the Aroundtown share between the acquisition date and the balance sheet date do not suggest a long-term decrease in the value in use of the investment below amortised cost. Furthermore, Aroundtown had an EPRA NAV per share of around EUR 8.70 as at 31 December 2019 which surpasses the equity investment's measured value of EUR 1,580.6 m or around EUR 8.60 per share. As such, a write-down to the lower fair value is not admissible.

E.4 OTHER FINANCIAL ASSETS

The other financial assets are classified as follows:

in EUR k	31/12/2019	31/12/2018
Other loans	11,690	12,015
Receivables from compensation claims	520	0
Account balances with restricted access	16,368	305
Derivative financial instruments	1,607	1,650
Other financial assets	4,872	676
Total	**35,056**	**14,646**

The other loans essentially comprise loans to non-controlling interests in WCM.

The account balances with restricted access are primarily cash pledged in connection with guarantees and loan agreements.

The other financial assets are non-current up to the value of the other loans, derivative financial instruments and other assets (in the amount of EUR k 4,801); the rest is current.

E.5 TRADE RECEIVABLES

The following table gives an overview of the Group trade receivables:

in EUR k	31/12/2019	31/12/2018
Trade receivables, gross	13,682	16,776
Applicable allowances	−2,703	−1,913
Total trade receivables	**10,979**	**14,864**
of which from letting activities	10,355	13,906
of which from disposals of properties	129	69
of which other trade receivables	494	888

All trade receivables are current.

For the development of allowances and the collateral received, please see section H.3.

E.6 OTHER RECEIVABLES AND ASSETS

Other receivables and assets can be broken down as follows:

in EUR k	31/12/2019	31/12/2018
Accruals and deferrals	4,367	5,166
Prepayments	36	44
Accruals and deferrals from rental incentives granted	18,177	15,254
Other assets	1,465	2,264
Total	**24,044**	**22,727**

The accruals and deferrals include negative start values from interest rate derivatives which are reversed over the term of each hedging instrument.

The accruals and deferrals from rental incentives granted essentially comprise rent-free periods, broker costs and subsidies for original hotel equipment.

Of the other receivables and assets, EUR k 2,958 is current (previous year EUR k 2,562); the rest is non-current.

E.7 INVENTORIES

Inventories are subdivided as follows:

in EUR k	31/12/2019	31/12/2018
Land with completed buildings	92	95
Undeveloped land	642	642
Total	**734**	**737**

More information on the inventories can be found in the table below:

in EUR k	2019	2018
Inventories recognised as expenses in the reporting period	3	0
Inventories with a term of more than one year	731	737

E.8 CASH AND CASH EQUIVALENTS

As at the measurement dates, cash and cash equivalents are represented as follows:

in EUR k	31/12/2019	31/12/2018
Bank balances	523,946	153,809
Cash in hand	4	83
Total cash and cash equivalents	**523,950**	**153,893**

Bank balances are subject to variable interest rates for callable loans. Short-term deposits are made for time periods of up to three months.

E.9 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The carrying amount of the assets held for sale includes properties for which the company had notarised purchase agreements as at the reporting date and developed as follows:

in EUR k	2019	2018
Carrying amount as at 01/01	**33,080**	**9,698**
Reclassification from investment property	155,947	48,408
Disposal through the sale of land and buildings	−186,009	−25,025
Carrying amount as at 31/12/2019	**3,018**	**33,080**

The result from the disposal of assets held for sale is recognised in the statement of comprehensive income under the result from the disposal of property.

E.10 EQUITY

As at the reporting date, the subscribed capital of the company was EUR k 112,074 (previous year EUR k 103,385). The share capital is fully paid-in. There are no other share types.

In the second quarter of 2019, TLG IMMOBILIEN had resolved to increase its registered share capital from EUR 103,384,729.00 to EUR 111,884,729.00, making partial use of its authorised capital and excluding the subscription rights of the shareholders. The 8,500,000 new no-par value bearer shares were issued for institutional investors through accelerated book-building as part of a private placement in late June 2019 and have been entitled to a share of profits since 1 January 2019.

The shares were issued at a placement price of EUR 26.13 per share. The gross proceeds were therefore around EUR 222 m.

Development of other components of equity

The capital reserves amount to EUR k 1,148,041 (previous year EUR k 1,011,381). In particular, the changes (EUR k 136,660) are due to the capital increase in exchange for cash contributions in the second quarter of 2019, the share capital increase in exchange for contributions in kind in connection with the settlement offer to the outside shareholders of WCM AG and the withdrawal of EUR k 79,703 for appropriation to net retained profit (retained earnings).

The retained earnings of the Group have increased by EUR k 553,621 to EUR k 1,577,372 (previous year EUR k 1,023,751). This was due to the EUR k 571,728 in net income attributable to the shareholders of the parent company, the withdrawal from the capital reserves as well as the payment of a dividend of EUR k 94,140 to the shareholders in the financial year, which equates to EUR 0.91 per eligible no-par value share.

The other comprehensive income comprises actuarial gains and losses of EUR k 3,015 (previous year EUR k 2,199), accumulated fair value adjustments of derivatives in cash flow hedges of EUR k 1,301 (previous year EUR k 2,394) and proportional other comprehensive income from companies measured at equity of EUR k −616 (previous year EUR k 0).

The deferred taxes are attributable to other comprehensive income as follows:

01/01/–31/12/2019 in EUR k	Before deferred taxes	Deferred taxes	After referred taxes
Fair value adjustments for interest rate derivatives in cash flow hedges	1,577	−484	1,093
Actuarial gains and losses	−1,177	361	−816

01/01/–31/12/2018 in EUR k	Before deferred taxes	Deferred taxes	After referred taxes
Fair value adjustments for interest rate derivatives in cash flow hedges	831	−90	740
Actuarial gains and losses	−352	101	−251

Development of the equity of hybrid capital providers

On 23 September 2019, TLG IMMOBILIEN issued an unsecured, subordinated hybrid bond with a total nominal value of EUR k 600 m and a face value of EUR 100,000 through its subsidiary TLG Finance S.à r.l., Luxembourg (the issuer). The hybrid bond was issued at an offering price of 98.835% with no fixed term and cannot be redeemed by TLG IMMOBILIEN until 23 December 2024 and thereafter on any interest payment date at a redemption price of 100.000%. The bond has a fixed interest rate of 3.375% p.a. until the first reset date on 23 December 2024. Likewise, the bond has a fixed interest rate for the first subsequent reset period until 23 December 2029. The interest rate for this period is calculated on the basis of the five-year swap rate on 23 December 2024 plus a premium of 3.980% p.a. Each reset period will be five years after 23 December 2029 and the fixed interest rate will be set analogously at the start of each reset period. A premium of 4.230% p.a. will be applied up to 23 December 2044 and a premium of 4.980% p.a. will be applied from 23 December 2044 onwards. Throughout the term of the hybrid bond, the issuer can suspend interest payments, although postponed interest is not itself subject to interest.

In accordance with IAS 32, the hybrid bond must be classified completely as equity. The raised capital was recognised in equity, less the transaction costs and with consideration for deferred taxes. The interest payments to be made to the bond holders and income taxes attributable to them will be recognised directly in equity.

E.11 LIABILITIES DUE TO FINANCIAL INSTITUTIONS

Liabilities due to financial institutions have changed due to scheduled and unscheduled amortisation and due to refinancing.

Loans totalling EUR k 142,796 were taken out in the 2019 financial year (previous year EUR k 56,202).

As at 31 December 2019, loans totalling EUR k 65,352 (previous year EUR k 112,739) due in 2020 and the scheduled repayments to be made in 2020 were recognised as due within one year.

The liabilities were generally secured by the provision of physical securities, the assignment of rights arising from the rental agreements and the pledging of shareholdings, with the exception of WCM. Generally, the overwhelming majority of the properties in the portfolio serve as collateral.

Liabilities due to financial institutions have the following remaining terms:

in EUR k	31/12/2019	31/12/2018
Due within 1 year	76,075	136,613
Due in more than one year	960,812	1,046,342

E.12 CORPORATE BONDS

In November 2017, TLG IMMOBILIEN AG issued an unsecured bond with a fixed interest rate, a total nominal value of EUR 400 m and a face value of EUR 100,000. The bond was issued at an offering price of 99.735% with a term ending on 27 November 2024, a coupon of 1.375% p.a. and a total yield of 1.415% p.a.

In the 2019 financial year, two other unsecured bonds were issued with fixed interest rates, a total nominal value of EUR 1.2 bn and a face value of EUR 100,000 each. Of this amount, EUR 600 m is attributable to a bond issued in May 2019 with an offering price of 98.379%, a term ending on 28 May 2026 and a coupon of 1.500% p.a. This equates to a total yield of 1.748% p.a. Another EUR 600 m is attributable to a bond issued in two tranches in September 2019. Both tranches were issued with a term ending on 23 September 2022 and a coupon of 0.375% p.a. The first tranche has a nominal value of EUR 500 m and was issued at an offering price of 99.549% with a total yield of 0.527% p.a. The second tranche with a nominal value of EUR 100 m was issued at an offering price of 99.836% which equates to a total yield of 0.430% p.a. over the term.

E.13 PENSION PROVISIONS

There are pension obligations towards former executives and managing directors who began working for the company between 1991 and 2001.

As at 31 December 2019, EUR k 2,508 of the present value of the benefit obligation was attributable to the group of former scheme members and EUR k 6,486 was attributable to the group of pensioners and survivors. The average term of the obligations towards the managing directors is 13.47 years. The company accrued payments of EUR k –328 (previous year EUR k –314) under pension schemes in 2019.

The pension provisions for defined benefit plans are calculated on the basis of actuarial assumptions in accordance with IAS 19. The following parameters were applied in the financial years:

in %	31/12/2019	31/12/2018
Discount rate	0.65%	1.60%
Rate of pension progression[1]	2.00%	2.00%

[1] Some commitments have a guaranteed interest rate of 1% p.a., in which case no other trend is recognised.

The 2018G mortality tables were used for the biometric assumptions.

The present value of the pension provisions developed as follows in the corresponding periods:

in EUR k	2019	2018
Present value of the obligations as at 01/01	**8,019**	**7,858**
Interest expense	126	123
Pension payments rendered by the employer directly	–328	–314
Actuarial losses	1,177	352
Present value of the obligations as at 31/12	**8,994**	**8,019**

The actuarial losses resulting from the adjustment of the discount rate were recognised in other comprehensive income. Of this amount, a loss of EUR k 136 (previous year EUR k 243) is attributable to adjustments made in the current year based on past experience, a loss of EUR k 1,040 (previous year EUR k 0) is attributable to changes to financial assumptions and a loss of EUR k 0 (previous year EUR k 109) is attributable to changes to demographic assumptions. Overall, other comprehensive income comprises actuarial losses before deferred taxes of EUR k 4,348 (previous year EUR k 3,171).

Expenses of EUR k 860 (previous year EUR k 802) for defined benefit plans arose in the current year. These essentially consist of contributions to the statutory pension scheme.

Based on the obligations accounted for on the reporting dates, a change to the individual parameters would have had the following impact on the present value of the obligation if the other assumptions had remained constant.

Sensitivity analysis 2019 in EUR k	Change in the assumption	Increase in the assumption	Decrease in the assumption
Discount rate	1.00%	7,904	10,331
Rate of pension progression[1]	0.50%	9,441	8,584

Sensitivity analysis 2018 in EUR k	Change in the assumption	Increase in the assumption	Decrease in the assumption
Discount rate	1.00%	7,072	9,178
Rate of pension progression[1]	0.50%	8,400	7,669

[1] Some commitments have a guaranteed interest rate of 1% p.a., in which case no other trend is recognised.

Increases and decreases in the discount rate, rate of pension progression or mortality do not cause the same absolute amount of difference in the calculation of the pension provisions. When multiple assumptions change at the same time, the resulting overall effect will not necessarily match the sum of each individual effect. Furthermore, the sensitivities only reflect a change to the pension provisions for the specific magnitude of each change to the assumptions (e.g. 0.5%). If the assumptions change in a different order of magnitude, this will not necessarily have a linear impact on the amount of the pension provisions.

E.14 OTHER PROVISIONS

The other provisions developed as follows in the financial year:

in EUR k	As at 01/01/2019	Contribution	Utilisation	Reversals	As at 31/12/2019
Provisions for litigation risks	3,821	851	–2,153	–746	1,773
Other miscellaneous provisions	630	5,021	–30	–29	5,592
Total	**4,451**	**5,872**	**–2,183**	**–775**	**7,365**

The provisions for litigation risks concern the risks of ongoing court proceedings and were formed to match the expected claims. Some legal disputes were settled in the reporting year.

Essentially, the miscellaneous other provisions comprise provisions from share-based payments in cash-settled plans.

E.15 DEFERRED TAXES

The deferred tax assets and liabilities result from the following temporary differences and taxable loss carryforwards:

in EUR k	31/12/2019 Deferred tax assets	31/12/2019 Deferred tax liabilities	31/12/2018 Deferred tax assets	31/12/2018 Deferred tax liabilities
Investment property and owner-occupied property	0	780.699	0	557.990
Property, plant and equipment	0	1.611	0	1.385
Intangible assets	0	2	17	0
Other non-current financial assets	2,477	0	0	506
Other assets	7,192	10,123	2,009	16,717
Pension provisions	1,420	0	1,149	0
Other provisions	1,027	0	0	798
Financial liabilities	9,628	6,687	3,925	2,216
Other liabilities	1,143	1,871	3,177	349
Deferred taxes on taxable temporary differences	**22,887**	**800,992**	**10,277**	**579,961**
Loss/interest carryforwards	80,897	0	89,376	0
OBD	0	0	0	181
Total of deferred taxes before offsetting	**103,783**	**800,992**	**99,653**	**580,142**
Offsetting	103,783	103,783	99,653	99,653
Disclosure after offsetting	**0**	**697,209**	**0**	**480,489**

The deferred tax claims and liabilities before offsetting are expected to be realised as follows:

in EUR k	31/12/2019	31/12/2018
Deferred tax claims		
– realised after more than 12 months	95,438	86,323
– realised within 12 months	8,345	13,330
Total of deferred tax claims	**103,783**	**99,653**
Deferred tax liabilities		
– realised after more than 12 months	795,415	567,986
– realised within 12 months	5,577	12,156
Total of deferred tax liabilities	**800,992**	**580,142**

As at the end of the financial year, no deferred taxes for outside basis differences were recognised (deferred tax liabilities of EUR k 181 in the previous year).

On the level of WCM, there are unused tax losses of around EUR 158 m for corporation tax and EUR 143 m for trade tax for which no deferred tax claims have been recognised as it is not sufficiently likely from a current standpoint that they will be useful.

E.16 TAX LIABILITIES

Tax liabilities are subdivided as follows:

in EUR k	31/12/2019	31/12/2018
Provisions for corporation tax	4,492	1,957
Provisions for trade tax	5,021	786
Total tax liabilities	**9,514**	**2,743**

The increase in tax provisions compared to the previous year was essentially due to the higher taxable profits and higher prior-period income taxes as a risk provision for periods which have not been assessed conclusively. We refer to the disclosures in section F.10.

E.17 LIABILITIES

The liabilities are classified as follows:

in EUR k	31/12/2019	31/12/2018
Trade payables	**38,560**	**35,389**
Total of other liabilities	**45,139**	**42,821**
Liabilities to non-controlling interests	21,503	22,010
Miscellaneous other liabilities	13,445	10,811
Liabilities for leases	2,031	0
Liabilities to WCM shareholders	2,622	2,627
Liabilities to employees	2,472	1,437
Accruals and deferrals from derivative financial instruments	1,649	1,917
Other taxes	794	3,213
Investment grants	623	786
Liabilities to tenants	0	15
Prepayments received	0	5
Total of liabilities	**83,699**	**78,210**

The liabilities have the following remaining terms:

in EUR k	31/12/2019	31/12/2018
Up to 1 year	56,074	49,702
1–5 years	1,675	1,265
More than 5 years	25,950	27,243
Total	**83,699**	**78,210**

The liabilities to non-controlling interests mainly concern the minority shareholders of the WCM subsidiaries as at the reporting date.

The liabilities to WCM shareholders are due to the guaranteed dividends for the 2019 and 2020 financial years.

The investment subsidies comprise received subsidies which are realised pro rata in net profit or loss over the term of the rental agreement. Of the EUR k 623 in investment subsidies, EUR k 600 is long term.

The accruals and deferrals from derivative financial instruments include positive start values from floor transactions which are reversed over the term of the hedging instrument.

Essentially, the miscellaneous other liabilities comprise debtors with credit balances and liabilities for leases.

F. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

F.1 NET OPERATING INCOME FROM LETTING ACTIVITIES

In the 2019 financial year, the income from letting activities increased by almost 4%, due primarily to the more profitable operational management of the property portfolio.

The ratio of expenses relating to letting activities to income from letting activities has improved slightly.

In the financial year, rent guarantees totalling EUR k 494 (previous year EUR k 163) were accepted.

F.2 RESULT FROM THE DISPOSAL OF PROPERTIES

The result from the disposal of properties developed as follows in 2019 and in the previous year:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Proceeds from the disposal of properties	186,035	25,025
Carrying amount of properties disposed of	−186,013	−25,025
Change in value of properties held for sale	21,548	7,921
Costs of disposing of properties	−1,037	−88
Result from the disposal of properties	**20,533**	**7,833**

The change in the value of properties held for sale contains the upward revaluation of four properties which were disposed of through individual transactions and of various retail properties which were disposed of as part of the disposal of real estate companies.

Furthermore, the change in the value of properties held for sale comprises net income of EUR k 1,338 (previous year EUR k 7,921) resulting from the upward revaluation of two properties for which purchase agreements have been concluded yet which had not yet been handed over as at 31 December 2019. The transfer of benefits and encumbrances took place for the properties in the first quarter of 2020.

F.3 RESULT FROM THE REMEASUREMENT OF INVESTMENT PROPERTY

The result from the remeasurement of investment property remained positive, due mainly to the persistently favourable market conditions in the 2019 financial year. Besides intensive asset management, the increase is still due to the highly dynamic market developments, especially in Berlin. Welcome progress has also been made in individual property development projects.

See section E.1 for more details.

F.4 OTHER OPERATING INCOME

The other operating income developed as follows:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Reversal of allowances	631	327
Income from previous years	591	1,181
Other income	534	488
Total	**1,756**	**1,996**

F.5 PERSONNEL EXPENSES

Personnel expenses were as follows in the 2019 and 2018 financial years:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Salaries	11,072	11,588
Social security contributions and pension expenses	1,846	1,614
Bonuses	2,040	1,631
Exit compensation	1,278	200
Share-based payment components under IFRS 2	2,485	1,473
Total	**18,720**	**16,505**

Salaries have increased by EUR 1.1 m due to the higher number of employees. In the previous year expenses still incurred in connection with the remuneration of the two former members of the Management Board (EUR 2.0 m). Overall, the personnel expenses have increased due to provisions for risks in connection with exit compensation claims and the share-based payments for the Management Board which was expanded in 2019.

See also section H.10.

F.6 DEPRECIATION AND AMORTISATION

Depreciation and amortisation developed as follows:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Goodwill	0	164,724
Intangible assets	919	619
Land, land rights and buildings	464	139
Technical equipment and machines	0	19
Other equipment and furniture and fixtures	345	254
Total	**1,728**	**165,755**

F.7 OTHER OPERATING EXPENSES

The other operating expenses essentially comprise the following line items:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Consultant and audit costs	10,726	5,586
Other	4,074	4,472
General IT and administrative expenses	3,516	2,536
Impairments of receivables	2,763	1,221
Corporate advertising	843	898
Ancillary office costs	559	820
Vehicle and travel expenses	513	594
Other taxes	4	28
Depreciation of real estate inventories	0	20
Reversal of provisions/liabilities	0	-45
Total	**22,997**	**16,128**

Essentially, the higher consultant and audit costs arose in connection with the takeover offer of Aroundtown and the planned merger.

The line item “Other” essentially contains Supervisory Board remuneration, non-deductible input tax, acquisition costs and valuation fees.

F.8 FINANCIAL RESULT

The financial result is broken down as follows:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Net interest from bank balances	21	4
Net interest from default interest and deferrals	123	187
Other financial income	244	437
Total financial income	**388**	**628**
Interest expenses for interest rate derivatives	6,822	6,449
Interest from loans and bonds	28,412	23,719
Interest expenses from pension provisions	126	123
Other interest expenses	8,898	1,817
Total financial expenses	**44,257**	**32,109**
Financial result	**43,869**	**31,481**

In particular, the increase in financial expenses was due to additional interest expenses for the bonds issued in May and September 2019 as well as expenses for the premature repayment of loans and interest rate hedges in connection with the optimisation of the financing structure and resulting from disposals.

F.9 RESULT FROM THE REMEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

In the 2019 financial year, there was expenditure of EUR k 18,940 from the remeasurement of derivative financial instruments (previous year expenditure of EUR k 7,904).

The negative result is due primarily to changing market interest rates and the resulting market valuation of interest rate hedges on the loans.

F.10 INCOME TAXES

The tax expenses/income can be broken down as follows:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Current income taxes	9,072	3,354
Actual prior-period income taxes	4,252	–398
Deferred taxes	221,906	207,764
Tax expenses/income	**235,230**	**210,720**

Current income taxes have increased by EUR k 5,718. Unlike in the previous year, the higher taxable profits could not be balanced out by increased use of the interest carryforward.

In particular, the prior-period income taxes are due to a higher risk provision for periods which have not been assessed conclusively.

As in the previous year, the increase in deferred tax expenses is due primarily to the higher market values of investment property which are not recognised in the tax accounts (EUR k +222,709).

The expected (notional) expenses for income taxes can be transferred to the income taxes in the statement of comprehensive income as follows:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
IFRS earnings before taxes	**813,549**	**521,666**
Group tax rate in %	30.68%	30.68%
Expected income taxes	**249,556**	**160,021**
Tax rate changes due to relocation of headquarters	0	4,323
Deviating tax rates for subsidiaries	–514	–195
Special trade tax regulations	729	–730
Tax-free income	–27	–274
Non-deductible expenses	509	51,114
Initial recognition or carry-back of loss carryforwards	–3,714	–2,527
Use of loss carryforwards not previously recognised	–1,769	0
Losses excluding deferred taxes	1,003	0
Losses that cannot be offset	341	259
Companies measured at equity	–15,281	0
Deferred tax on capital adjustment costs	282	0
Actual taxes in previous years	4,252	–500
Deferred taxes for previous years	–347	–750
Other tax effects	210	–21
Effective income taxes	**235,230**	**210,720**
Effective tax rate in %	28.91%	40.39%

The tax rate to be used to calculate the income tax computation accounts for the current and – given the current legal situation – probable corporation tax rates of 15.0% (previous year 15.0%) and the solidarity contribution of 5.5% (previous year 5.5%) of the defined corporation tax less any credit. The weighted trade tax rate for Berlin and the regions in which the parent company has business premises is approx. 424% for the financial year (previous year 424%). With consideration for the collection rate and the base amount of trade tax of 3.5% (previous year 3.5%), the trade tax rate is therefore 14.85% (previous year 14.85%).

The domestic tax rate on which the calculated deferred taxes and expected (notional) tax expenses of the Group are based is therefore still 30.68%.

The effective tax rate resulting from the income tax expenses was 28.91% in the reporting year (previous year 40.39%). The decrease in the tax rate compared to the previous year was due primarily to the two reasons described below.

The effect resulting from the non-deductible amortisation of goodwill, which was a significant factor in the tax rate increase in the previous year did not exist in the reporting year. The tax effect of non-deductible expenses decreased by EUR k 50,605 compared to the previous year.

In the reporting year, the tax rate was lowered by the tax-free net income from companies measured at equity (tax effect of EUR k −15,281).

The deferred tax assets and liabilities before offsetting developed as follows as at the reporting date:

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Deferred tax assets at the start of the reporting year	99,653	102,175
Change (in net profit or loss)	1,210	−2,533
Change recognised in equity	2,920	11
Deferred tax assets at the end of the reporting year	**103,783**	**99,653**
Deferred tax liabilities at the start of the reporting year	580,142	374,911
Change (in net profit or loss)	223,116	205,231
Change due to scope of consolidation	−2,266	0
Deferred tax liabilities at the end of the reporting year	**800,992**	**580,142**

Deferred tax claims which are recognised directly to equity result from actuarial losses for pension obligations, hedge accounting reserves and transaction costs for the hybrid bond.

For more details on the deferred taxes, see section E.15.

F.11 EARNINGS PER SHARE

The earnings per share are calculated by dividing the net income for the period attributable to the shareholders by the weighted average number of ordinary shares outstanding within the reporting period.

in EUR k	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Net income attributable to the shareholders of the parent company, in EUR k	571,728	307,928
Weighted average number of shares outstanding in thousands	107,811	102,842
Basic earnings per share in EUR	**5.30**	**2.99**
Potential diluting effect of share-based payments in thousands	0	0
Number of shares with a potential diluting effect in thousands	107,811	102,842
Diluted earnings per share in EUR	**5.30**	**2.99**

G. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement reports the changes in the cash and cash equivalents recognised in the statement of financial position through cash inflows and outflows in accordance with IAS 7.

In this regard, cash flows are broken down into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. In line with IAS 7.18(b), the cash flow from operating activities is derived from earnings before taxes (EBT) using the indirect method. The cash flow from investing activities and cash flow from financing activities are determined based on cash receipts and payments.

The cash and cash equivalents contain the recognised cash and cash equivalents, and therefore also cash in hand and bank balances. Please see section E.8.

As an output of the calculation of the cash flow from operating activities, earnings before taxes (EBT) increased significantly compared to the previous year. Overall, the net cash flow from operating activities increased by EUR k 1,910. Essentially, it was influenced by the higher current surpluses from letting activities.

The cash flow from investing activities mainly comprises cash acquisitions and disposals of properties. Essentially, the significant increase in cash paid compared to the previous year (EUR k 1,424,264) is based on the cash outflow totalling EUR k 1,530,208 for the acquisition of Aroundtown's shares. The proceeds from the disposal of properties, which increased by EUR k 42,948 to reach EUR k 67,973 in the reporting year, had the opposite effect, as did the proceeds of EUR k 66,490 from the disposal of subsidiaries which held properties.

The cash flow from financing activities of EUR k 1,792,150 was due primarily to the issuance of the two bonds in May and September 2019 as well as the hybrid bond in September 2019, each with a nominal value of EUR k 600,000. The positive cash flow from financing activities was also affected by the capital increase in June 2019 which generated gross proceeds of EUR k 222,092. The repayment of loans totalling EUR k 237,240 as part of the optimisation of the financing structure had the opposite effect.

In 2019, the payment of a dividend reduced liquidity by EUR k 94,140 (previous year EUR k 84,645).

Financial liabilities developed as follows:

in EUR k	31/12/2018	Cash flows recognised through profit or loss	Change recognised directly in equity	31/12/2019
Non-current liabilities	1,442,829	1,178,573	–83.389	2,539,013
Current liabilities	136,613	–135.148	81.096	82,561
Total liabilities	**1,579,442**	**1,044,425**	**–2.293**	**2,621,574**

in EUR k	31/12/2017	Cash flows recognised through profit or loss	Change recognised directly in equity	31/12/2018
Non-current liabilities	1,516,876	0	–74,047	1,442,829
Current liabilities	24,816	36,802	74,995	136,613
Total liabilities	**1,541,692**	**36,802**	**948**	**1,579,442**

H. OTHER INFORMATION

H.1 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

H.1.1 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

Explanation of measurement categories and classes

The following table presents the financial assets and liabilities by measurement category and class. In this context, with regard to the reconciliation of the statement of financial position, the non-financial liabilities are accounted for even though they are not subject to IFRS 7:

31/12/2019 in EUR k	Measurement category in accordance with IFRS 9	Carrying amount as at 31/12/2019	Nominal value	Amortised cost	Fair value through net profit/loss	No financial instruments in accordance with IAS 32	Fair value as at 31/12/2019	Fair value hierarchy level
Other non-current financial assets (other loans)	AC	16,491	0	16,491	0	0	16,491	3
Other non-current financial assets	FVTPL	1,607	0	0	1,607	0	1,607	2
Trade receivables	AC	10,979	0	10,979	0	0	10,979	3
Other current financial assets	AC	16,959	16,959	0	0	0	16,959	1
Cash and cash equivalents	AC	523,950	523,950	0	0	0	523,950	1
Total financial assets		**569,985**	**540,909**	**27,470**	**1,607**	**0**	**569,985**	
Liabilities due to financial institutions	FLaC	1,036,887	0	1,036,887	0	0	1,034,793	2
Corporate bonds	FLaC	1,584,687	0	1,584,687	0	0	1,638,194	2
Trade payables	FLaC	38,560	0	38,560	0	0	38,560	3
Derivative financial instruments	FVTPL	27,307	0	0	27,307	0	27,307	2
Other liabilities	FLaC	45,139	0	1,716	0	43,423	45,139	3
Total financial liabilities		**2,732,580**	**0**	**2,661,850**	**27,307**	**43,423**	**2,783,993**	
Of which financial assets aggregated by measurement category								
AC		568,379	540,909	27,470	0	0	568,379	
FVTPL		1,607	0	0	1,607	0	1,607	
Of which financial liabilities aggregated by measurement category								
FLaC		2,705,273	0	2,661,850	0	43,423	2,756,686	
FVTPL		27,307	0	0	27,307	0	27,307	

31/12/2018 in EUR k	Measurement category in accordance with IFRS 9	Carrying amount as at 31/12/2018	Nominal value	Amortised cost	Fair value through net profit/loss	No financial instruments in accordance with IAS 32	Fair value as at 31/12/2018	Fair value hierarchy level
Other non-current financial assets (other loans)	AC	12,015	0	12,015	0	0	12,015	3
Other non-current financial assets	FVTPL	1,650	0	0	1,650	0	1,650	2
Trade receivables	AC	14,864	0	14,864	0	0	14,864	3
Other current financial assets	AC	1,129	0	1,129	0	0	1,129	3
Cash and cash equivalents	AC	153,893	153,893	0	0	0	153,893	1
Total financial assets		**183,551**	**153,893**	**28,008**	**1,650**	**0**	**183,551**	
Liabilities due to financial institutions	FLaC	1,182,955	0	1,182,955	0	0	1,217,078	2
Corporate bonds	FLaC	396,487	0	396,487	0	0	391,256	2
Trade payables	FLaC	35,389	0	35,389	0	0	35,389	3
Derivative financial instruments	FVTPL	10,254	0	0	10,254	0	10,254	2
Other liabilities	FLaC	42,821	0	26,353	0	16,468	42,821	3
Total financial liabilities		**1,667,906**	**0**	**1,641,184**	**10,254**	**16,468**	**1,696,798**	
Of which financial assets aggregated by measurement category								
AC		181,901	153,893	28,008	0	0	181,901	
FVTPL		1,650	0	0	1,650	0	1,650	
Of which financial liabilities aggregated by measurement category								
FLaC		1,657,652	0	1,641,184	0	16,468	1,686,544	
FVTPL		10,254	0	0	10,254	0	10,254	

For the most part, the carrying amounts of cash and cash equivalents, trade receivables, other financial assets, trade payables and other liabilities have short remaining terms, with the exception of non-controlling interests. The carrying amounts correspond to the approximate fair values as at the reporting date.

H.1.2 NET RESULTS BY MEASUREMENT CATEGORY

In accordance with IFRS 7.20 (a), the net gains and losses from financial assets or financial liabilities that are measured at fair value through profit or loss or at amortised cost are to be disclosed.

The net results from these financial instruments are as follows:

in EUR k	01/01/2019–31/12/2019	01.01.2018 – 31.12.2018
Financial assets measured at amortised cost	1,745	266
Financial assets and financial liabilities measured at fair value through profit or loss	18,940	7,904
Financial liabilities measured at amortised cost	37,284	25,536
Total	**57,969**	**33,706**

The net result from financial assets measured at amortised cost comprises net interest from cash, allowances and reversals of write-downs resulting from the reversal of allowances for rent receivable and the amortisation of rent receivable. The net interest amounts to EUR k 388 (previous year EUR k 628).

The net result from assets and liabilities measured at fair value through profit or loss contains the result from the remeasurement of derivative financial instruments at market values.

The net result from financial liabilities measured at amortised cost essentially comprises interest expenses for ongoing debt service of EUR k 28,412 (previous year EUR k 23,719) in connection with loans and bonds as well as expenses for the premature repayment of loans and interest rate hedges of EUR k 3,753 (previous year EUR k 22).

H.2 PRINCIPLES OF FINANCIAL RISK MANAGEMENT

As part of its business activities, the TLG IMMOBILIEN Group is exposed to a variety of financial risks. In particular, these are the interest rate risk, the liquidity risk and the inherent risk of default in rental agreements and sales. These risks are independent types of risk which are under constant, systematic observation through the existing risk management system. They are assigned to executives in the various fields of the company who are responsible for identification, monitoring, reporting, management and control in connection with the aforementioned risks. This method ensures a degree of congruence between the nature of the risk and the field of responsibility. A risk manual – which is updated continuously – governs the identification, monitoring, reporting, management and control of these and other corporate risks. Risk management is integrated into Controlling.

Capital management

Capital management at TLG IMMOBILIEN is intended to ensure the financial resources required for the continuation of the company and the preservation of liquidity. Furthermore, the financial policies of the Group are designed to generate income for the shareholders and allow for the annual distribution of a dividend. The Group strives to increase its overall value. This holistic capital management strategy has not changed since the previous year.

As is standard in the sector, capital management is based on the Net Loan to Value (LTV) ratio. The Net LTV is the ratio between net debt and the fair value of the investment property. The net debt is determined by subtracting cash and cash equivalents from liabilities due to financial institutions and corporate bonds.

In the current financial year as in the previous years, the Group aims to continue securing access to debt at reasonable financing costs whilst not exceeding a reasonable proportion of debt.

As at 31 December 2019, the debt-to-equity ratio was as follows compared to the previous year:

in EUR k	31/12/2019	31/12/2018	Change	Change in %
Investment property (IAS 40)	4,707,397	4,067,527	639,870	15.7
Advance payments on investment property (IAS 40)	2,218	23	2,195	n/a
Owner-occupied property (IAS 16)	8,119	8,104	15	0.2
Non-current assets classified as held for sale (IFRS 5)	3,018	33,080	−30,062	−90.9
Inventories (IAS 2)	734	737	−3	−0.4
Shares in companies measured at equity	1,580,641	0	1,580,641	n/a
Real estate assets and investment assets	**6,302,127**	**4,109,471**	**2,192,656**	**53.4**
Interest-bearing liabilities	2,621,574	1,579,442	1,042,132	66.0
Cash and cash equivalents	523,950	153,893	370,057	240.5
Net debt	**2,097,624**	**1,425,549**	**672,075**	**47.1**
Net Loan to Value (Net LTV) in %	**33.3**	**34.7**	**−1.4 pp**	
Net debt plus hybrid bond	**2,688,468**	**1,425,549**	**1,262,919**	**88.6**
Adjusted Net Loan to Value (Net LTV) in %	**42.7**	**34.7**	**8.0 pp**	

In the table above, the assets classified as held for sale only concern investment property.

The Net LTV in the Group is 33.3% and decreased by 1.4 percentage points compared to the previous year. The shares in Aroundtown SA, also a company which holds properties, are merged with the real estate assets. The capital management goals were achieved in the reporting year.

Due to the hybrid bond issued in September, this report also contains an adjusted Net LTV which factors this financial instrument which is recognised as equity in the consolidated financial statements into the net debt as liabilities. As at the reporting date, the adjusted Net LTV was 42.7%.

As such, it was within the long-term ceiling of 45% for the Net LTV announced most recently in the 2018 annual report.

H.3 DEFAULT RISKS

The risk that a contractual partner – essentially tenants and purchasers of property – will be unable to meet its contractual payment obligations, thus causing the TLG IMMOBILIEN Group to suffer a loss, is known as the risk of default. Credit checks are carried out in order to control the risks of default.

Default risks exist primarily for trade receivables. The TLG IMMOBILIEN Group does not consider itself exposed to a significant credit risk from any individual contractual partner. The credit risk is limited by the broad, heterogeneous customer base. The risks of bad debt are minimised by carefully selecting contractual partners and professional credit checks. Additionally, standard credit hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used.

The creditworthiness of contractual partners is also monitored continuously. If a contractual partner’s creditworthiness should deteriorate significantly, the company will endeavour to remove the corresponding items from the statement of financial position as quickly as possible and not enter into any new positions.

The bank balances of TLG IMMOBILIEN are fully protected against default risks by the security measures of German banks. TLG IMMOBILIEN regularly checks its membership in, and the coverage of, the protection schemes.

The highest possible default risk is the carrying amount of the financial assets, not taking into account received securities or other risk-reducing agreements. No guarantees were issued for subsidiaries or associated companies.

The following table shows the financial assets which were impaired on the reporting date:

31/12/2019 in EUR k	Carrying amount before impairment	Impairment	Residual carrying amount
Trade receivables	13,682	–2,703	10,979
Other financial assets	35,080	–24	35,056
Total	**48,762**	**–2,727**	**46,035**

31/12/2018 in EUR k	Carrying amount before impairment	Impairment	Residual carrying amount
Trade receivables	16,776	–1,913	14,864
Other financial assets	14,692	–46	14,646
Total	**31,468**	**–1,959**	**29,510**

Collateral exists for the gross trade receivables – essentially rent deposits of approx. EUR 5.3 m (previous year EUR 4.2 m) – which can be used to offset outstanding receivables if the legal requirements are met.

The impairments were as follows in the 2019 financial year:

31/12/2019 in EUR k	As at 01/01	Contribution	Utilisation	Reversals	Other change	As at the reporting date
Trade receivables	1,913	2,079	–581	–609	–98	2,703
Other financial assets	46	0	–1	–21	0	24
Total	**1,959**	**2,079**	**–581**	**–631**	**–98**	**2,727**

The impairments were as follows in the same period in the previous year:

31/12/2018 in EUR k	As at 01/01	Contribution	Utilisation	Reversals	Other change	As at the reporting date
Trade receivables	1,232	1,014	–18	–314	0	1,913
Other financial assets	57	2	0	–13	0	46
Total	**1,289**	**1,016**	**–18**	**–327**	**0**	**1,959**

Additionally, the table below presents the age structure of the financial assets that were overdue as at the reporting date and their individual impairment.

			Trade receivables			
				Overdue in days		
31/12/2019 in EUR k	Total	Other financial assets	Not overdue	< 90 days	90–180 days	> 180 days
Expected credit loss rate in %		0%	2%	1%	36%	60%
Gross carrying amount in EUR k	48,762	35,080	8,142	976	666	3,899
Expected credit loss in EUR k	2,727	24	128	10	239	2,326

H.4 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following financial assets and financial liabilities are subject to offsetting:

Financial assets in EUR k	Gross amount of financial assets	Gross amount of financial liabilities offset in the statement of financial position	Net amount recognised in the statement of financial position under financial assets
31/12/2019			
Trade receivables	51,982	–50,322	5,002
31/12/2018			
Trade receivables	42,404	–41,159	4,246

Financial liabilities in EUR k	Gross amount of financial liabilities offset in the statement of financial position	Gross amount of financial assets	Net amount recognised in the statement of financial position under financial liabilities
31/12/2019			
Prepayments received towards operating costs	–50,322	51,982	–3,343
31/12/2018			
Prepayments received towards operating costs	–41,159	42,404	–3,519

The offsetting concerns receivables from tenants for operating costs which have been offset against the corresponding prepayments by tenants towards operating costs.

H.5 LIQUIDITY RISKS

The risk that a company will be unable to meet its payment obligations on a contractually agreed date is known as the liquidity risk.

The Corporate Finance/Treasury department continuously monitors and plans the liquidity requirements of the Group in order to ensure its liquidity. Enough cash to meet the obligations of the Group for a given period of time is always kept available.

Additionally, the Group has a short-term credit line of EUR k 500 which, if necessary, can be utilised. The credit line is unsecured.

The following table contains the contractually agreed (undiscounted) interest payments and repayments of the primary financial liabilities of the TLG IMMOBILIEN Group with a negative fair value. The maturities are based on the contractually defined fixed interest rates of the financial liabilities.

31/12/2019 in EUR k	Carrying	Maturities		
		< 1 year	1–5 years	> 5 years
Liabilities due to financial institutions	1,036,887	85,679	462,544	587,543
Corporate bonds	1,584,687	16,750	1,062,500	618,000
Derivative financial instruments	27,307	5,941	17,205	2,732
Trade payables	38,560	38,560	0	0
Other liabilities	43,108	17,514	1,218	24,376
Liabilities for leases	2,031	0	457	1,574
Total	**2,732,580**	**164,444**	**1,543,924**	**1,234,225**

31/12/2018 in EUR k	Carrying	Maturities		
		< 1 year	1–5 years	> 5 years
Liabilities due to financial institutions	1,182,955	142,520	500,634	607,106
Corporate bonds	396,487	5,500	22,000	405,500
Derivative financial instruments	10,254	5,923	9,356	–6,818
Trade payables	35,389	35,389	0	0
Other liabilities	42,821	14,313	1,265	27,243
Total	**1,667,907**	**203,645**	**533,255**	**1,033,031**

All instruments for which payments were contractually agreed as at the reporting date have been included. Planned figures for new liabilities in the future are not included. The variable interest payments from financial instruments are determined on the basis of the last specific interest rates before the reporting date. Financial liabilities that can be repaid at any time are always allocated to the earliest repayment date.

The financial liabilities either have fixed interest rates or are safeguarded by interest rate hedges. The combined volume for both variants is 99.6% (previous year 100%). The average effective interest rate is around 1.58% (previous year around 1.90%). The future prolongation structure for the loans and bonds on the basis of the current residual debt is as follows:

in EUR k	Carrying amount	Nominal value	Up to 1 year	1 – 5 years	More than 5 years
Prolongation structure 2019	2,621,574	2,641,877	82,120	1,378,639	1,181,118
Prolongation structure 2018	1,579,443	1,578,876	124,736	452,731	1,001,409

Some financing contracts provide for financial covenants (essentially concerning the Group's equity ratio, LTV, interest coverage ratio, debt service coverage ratio and vacancy and WALT covenants) whereby the bank could exercise a right of termination without notice if the covenants are not adhered to. The company covers the risk of a breached covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. A breached covenant can also be remedied by means of unscheduled repayments, for example. No covenants were breached in 2019.

H.6 MARKET RISKS

Increased interest rates can result in growing financing costs. The company accounts for this interest rate risk by creating interest rate hedges for loans with variable interest rates and by concluding agreements with fixed interest rates and terms spanning a number of years. The interest rate hedges consist of interest rate derivatives such as interest rate swaps and floors. The use of such interest rate derivatives is governed by guidelines. Under the guidelines, derivative financial instruments are only used for the purposes of hedging and never for trading. In general, there is a hedge for every loan with a variable interest rate.

The TLG IMMOBILIEN Group is not exposed to any foreign exchange risks as its major transactions are carried out in euros.

As at 31 December 2019, the portfolio contained the following derivative financial instruments whose maturity periods are as at the reporting date.

Derivative financial instruments

in EUR k	Fair Value	< 1 year
Derivative assets held for trading	**1,607**	**0**
of which interest rate swaps	0	0
of which floors	1,607	0
Derivative liabilities held for trading	**27,307**	**0**
of which interest rate swaps	27,307	0

As at the reporting date in the previous year, the portfolio contained the following derivative financial instruments:

Derivative financial instruments

in EUR k	Fair Value	< 1 year
Derivative assets held for trading	**1,650**	**0**
of which interest rate swaps	432	0
of which floors	1,219	0
Derivative liabilities held for trading	**10,254**	**0**
of which interest rate swaps	10,254	0

The derivative financial instruments were used as hedging instruments under IAS 39 until the end of March 2017. Hedge accounting was discontinued at the start of the second quarter of 2017. Ever since, all changes in market values are presented through the item "Result from the remeasurement of derivative financial instruments".

The changes in market value that have been presented as other comprehensive income and allocated to an equity reserve in prior periods will be reversed on a pro-rata basis over the remaining term of each underlying transaction.

The following table shows the amount recognised directly in other comprehensive income during the reporting period.

in EUR k	2019	2018
Opening balance as at 01/01	**−3,454**	**−4,285**
Reversal from equity into the statement of profit or loss	1,577	831
Closing balance as at 31/12	**−1,877**	**−3,454**

H.7 SENSITIVITIES

Under IFRS 7, interest rate risks are represented by sensitivity analyses. These analyses determine the impact of a change in market interest rates on the net interest and exchanges, trading profit and losses, and on the equity on the reporting date.

The sensitivity analysis also factors in the impacts on equity and the statement of comprehensive income of TLG IMMOBILIEN that would result from a simultaneous fluctuation in the euro yield curve by +/− 50 basis points (previous year +/− 50 basis points). If the yield curve were to decline by 50 basis points, the interest rate would fall to 0.0% at the lowest, provided that this has been contractually agreed. The cash flow effects from fluctuations in the yield curve merely concern the interest income and expenses for the next reporting period.

Based on the financial instruments held or issued by TLG IMMOBILIEN as at the reporting date, a hypothetical change – quantified by sensitivity analyses – in the interest rates on which each instrument was based on the reporting date would have had the following effects (before taxes).

Financial instruments in EUR k	Effects on income +50 BP	 −50 BP
31/12/2019		
Financial liabilities	−3,116	3,116
Interest rate derivatives	18,614	−19,354
Floors	−1,115	1,852

Financial instruments in EUR k	Effects on income +50 BP	 −50 BP
31/12/2018		
Financial liabilities	−2,926	2,926
Interest rate derivatives	20,502	−20,705
Floors	−812	1,555

H.8 NUMBER OF EMPLOYEES

As at 31 December 2019, 158 people were employed by the Group (132 as at 31/12/2018).

	31/12/2019	Average number of employees in 2019	31/12/2018	Average number of employees in 2018
Permanent employees	153	139	129	126
Temporary employees	5	5	3	3
Total	**158**	**144**	**132**	**129**

As in the previous year, the full-time employees are not reported due to the low proportion of part-time employees.

H.9 TOTAL AUDITOR'S FEE

The following fees have been recognised as expenses for the services rendered by the auditor of the consolidated financial statements in the financial year:

in EUR k	2019	2018
Audit services	466	561
Other assurance services	194	176
Other services	24	0
Tax consulting services	0	0
Total fee	**684**	**737**

The audit services of EUR k 466 comprise the auditor's services in connection with the audit of the financial statements and the audit of the consolidated financial statements of WCM AG totalling EUR k 191.

The increase in other assurance services essentially resulted from services of the auditor in connection with the preparation of various comfort letters for the issuance of bonds.

H.10 IFRS 2 PROGRAMMES

H.10.1 SHARE-BASED PAYMENTS TO EMPLOYEES

In the 2019 financial year, expenses for a share-based payment component for certain employees were recognised under IFRS. The grant date fair value of the share-based payments in 2019 is EUR k 330.

With regard to its targets and payment criteria, this remuneration component shares its structure with the long-term incentive scheme for the Management Board, which is described below.

H.10.2 LTI MANAGEMENT BOARD CONTRACTS

The employment contracts of the members of the Management Board include a long-term incentive programme for each financial year from 2018 to 2022.

Each LTI tranche covers a four-year period. Completion of the defined objectives is determined at the end of the fourth year by means of a comparison between current progress and the target.

The amount of LTI remuneration is contingent on the completion of certain objectives. In this regard, the major objectives are the improvement of the Net Asset Value and the TLG IMMOBILIEN AG share price compared to the relevant EPRA Europe Index.

The contracts of the members of the Management Board cannot be duly terminated. The contract will end if a member of the Management Board becomes permanently unable to work during the term of the contract. The member of the Management Board will receive 100% of his LTI if he was actively employed during the calendar year in which the LTI commitment existed. If the member of the Management Board was not employed for the full calendar year, the LTI shall be disbursed at a proportional rate.

The scheme is being treated as share-based payments in a cash-settled plan in accordance with IFRS 2.

Based on the estimations of the Management Board as to the completion of performance hurdles, personnel expenses of EUR k 2,326 were recognised for the LTI of the members of the Management Board in the 2019 financial year (previous year EUR k 1,446). The provisions formed amount to EUR k 2,823 (previous year EUR k 497).

The fair value of the 2019 LTI tranche as at the settlement date was EUR k 429 or EUR k 341 (2018 LTI tranche: EUR k 108) and was calculated using a recognised option pricing model. See the disclosures regarding the remuneration of the Management Board in the remuneration report.

H.11 RELATED PARTIES

Related companies and parties are defined as companies and persons which have the ability to control the TLG IMMOBILIEN Group or exercise significant influence over it, or which the TLG IMMOBILIEN Group controls or exercises significant influence over.

Accordingly, the members and close relatives of the Management and Supervisory Boards of TLG IMMOBILIEN AG and the TLG IMMOBILIEN Group's subsidiaries are considered related parties and companies.

Ouram Holding S.à r.l. and Aroundtown SA also count as related companies according to IAS 24.9(b)(ii).

Related companies

On 18 November 2019, TLG IMMOBILIEN AG and Aroundtown SA signed a business combination agreement setting out the basic principles of the planned transaction. The business combination agreement governs the structure of the transaction, the conditions of the takeover offer, the support by the Management Board of TLG IMMOBILIEN AG and other basic principles and conditions of the transaction. The business combination agreement which serves as the cornerstone of the share acquisition by means of Aroundtown SA's takeover offer also addresses the future organisational structure and proportional membership of the Management Board. Furthermore, Aroundtown SA makes a financing commitment to TLG IMMOBILIEN AG in the event that its creditors or bondholders exercise rights of termination in accordance with change-of-control clauses. In this case, Aroundtown SA shall provide the necessary amount of funds through shareholder loans or other financial methods at conventional rates.

TLG IMMOBILIEN AG had concluded loan agreements with its subsidiaries TLG MVF GmbH and TLG CCF GmbH on 11 June 2019, each in the amount of EUR k 15,000 with TLG IMMOBILIEN AG as the lender, which were terminated in December 2019. The purpose of the loan agreements was to optimise liquidity.

Effective as at 1 March 2018, TLG IMMOBILIEN AG concluded an agency agreement with its subsidiaries and their direct and indirect subsidiaries. It undertook to assume and perform all services necessary to the operation of the companies and the management of the properties held by the companies in exchange for customary remuneration. TLG IMMOBILIEN AG has taken charge of all operating and management activities of all of the companies in the TLG IMMOBILIEN Group since that time. More subsidiaries joined this agency agreement in the 2019 financial year.

TLG IMMOBILIEN AG and WCM AG concluded a loan agreement for EUR k 58,845 on 25 June 2019, with TLG IMMOBILIEN AG as the lender. The loan is payable by 28 June 2026. It will serve to pay off liabilities to financial institutions on the level of WCM subsidiaries.

On 24 September 2019, a loan of EUR k 600,000 was agreed between TLG IMMOBILIEN AG as the borrower and TLG Finance S.à r.l. as the lender in order to pass on income from the issuance of subordinated bonds with unlimited terms. The loan is payable by 23 December 2031.

All outstanding balances with the parent company were agreed at standard market rates. None of the balances is secured. No expenses were recognised as irrecoverable or doubtful receivables with regard to the amounts owed by the parent company in the current year or in the previous year.

Related parties

No transactions of particular significance took place with related companies in the 2019 financial year.

The composition of the Management Board has changed since the previous year. With effect from 3 June 2019, the Supervisory Board of TLG IMMOBILIEN AG has appointed Mr Barak Bar-Hen as a member of the Management Board and Chief Executive Officer for the period until 2 June 2023.

The remuneration paid by TLG IMMOBILIEN AG to the members of the Management Board was as follows in the 2019 financial year:

in EUR k	2019	2018
Fixed remuneration	1,178	890
Fringe benefits	239	208
Subtotal of fixed remuneration	**1,417**	**1,098**
Short-term variable remuneration (STI)	801	626
Long-term variable remuneration (LTI)	1,199	476
Subtotal of variable remuneration	**2,000**	**1,102**
Total remuneration	**3,417**	**2,200**

Likewise, the composition of the Supervisory Board changed in the 2019 financial year.

Dr Claus Nolting had stepped down from the Supervisory Board with effect from 31 December 2018. By judicial decree on 15 February 2019, the local court of Charlottenburg appointed Mr Jonathan Lurie as a member of the Supervisory Board until the end of the annual general meeting in 2019. Additionally, the terms of office of Mr Michael Zahn and Dr Michael Bütter on the Supervisory Board ended at the end of the annual general meeting in 2019.

The following members have been appointed to the Supervisory Board with the following majorities of the share capital with voting rights in attendance at the general meeting held on 21 May 2019:

Member	%
Klaus Krägel	87.2034
Jonathan Lurie	87.5664
Ran Laufer	**81.3253**

See the remuneration report, which is part of the report on the position of the company and the Group, for more disclosures on the remuneration of the Management Board.

Remuneration paid to previous members of the management totalled EUR 0.2 m in 2019 (previous year EUR 0.2 m). In 2019, EUR 3.0 m was placed into reserves for pension obligations to past members of the management (previous year EUR 2.8 m).

In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. The remuneration paid pro rata to the members of the Supervisory Board for the 2019 financial year totalled EUR 0.5 m (previous year EUR 0.6 m).

In summary, this resulted in the following recognised expenses for the remuneration of the Management and Supervisory Boards in line with IAS 24.17:

in EUR k	2019	2018
Benefits due in the short term	2,868	2,306
Other benefits due in the long term	0	1,794
Share-based payments	2,326	1,446
Total	**5,194**	**5,546**

The Supervisory Board of TLG IMMOBILIEN AG consists of the following members:

Sascha Hettrich FRICS (Chairperson of the Supervisory Board)	Chairperson since 21/05/2019
Chairperson of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019 Member from 01/01/2019 to 21/05/2019
Chairperson of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	since 21/05/2019
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	
Member of the project development committee of TLG IMMOBILIEN, Berlin	Chairperson until 21/05/2019
Member of the supervisory board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt/Main	
Member of the board of directors, VIVION Investments S.à.r.l., Luxembourg	
Member of the board of directors, Golden Capital Partners S.A., Luxembourg	
Managing partner of HETTRICH TOMORROW GmbH, Berlin	
Member of the Committee on Berlin Property Values	
Ran Laufer (Vice-chairperson)	Vice-chairperson since 21/05/2019
Member of the project development committee of TLG IMMOBILIEN, Berlin	since 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Shareholder/managing director of Panorama Immobilien GmbH, Monheim am Rhein	since 2019
CEO of ADO Properties S.A., Berlin	July 2019 to December 2019
Member of the board of directors of Aroundtown S.A., Luxembourg	since 16/12/2019
Klaus Krägel	Member since 21/05/2019
Chairperson of the project development committee of TLG IMMOBILIEN, Berlin	since 21/05/2019
CEO of DIM Holding AG, Berlin	until 31/01/2020
Managing director of GIV Management GmbH, Berlin	until 30/11/2019
Managing director of Golden Route GmbH, Hamburg	
Jonathan Lurie	Member since 15/02/2019
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	since 21/05/2019
Senior adviser, Real Estate, McKinsey & Company, London	
Managing partner, Realty Corporation Ltd., London	
Member of the supervisory board of Corestate Capital Holdings SA, Luxembourg	since April 2019
Helmut Ullrich	
Chairperson of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	
Member of the project development committee of TLG IMMOBILIEN, Berlin	until 21/05/2019
Chairperson of the supervisory board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt/Main	
Michael Zahn	Member and Chairperson until 21/05/2019
Chairperson of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	until 21/05/2019
Chairperson of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the audit committee, TLG IMMOBILIEN AG, Berlin	until 21/05/2019
CEO of Deutsche Wohnen SE, Berlin	
Member of the supervisory board of Scout24 AG, Munich	until June 2019
Chairperson of the advisory board of G+D Gesellschaft für Energiemanagement GmbH, Magdeburg	
Chairperson of the supervisory board of Funk Schadensmanagement GmbH, Berlin	
Member of the advisory board of DZ Bank AG, Frankfurt/Main	
Member of the advisory board of Füchse Berlin Handball GmbH, Berlin	
Member of the real estate advisory board of GETEC Wärme & Effizienz AG, Magdeburg	
Dr. Michael Bütter	Member until 21/05/2019 Vice-chairperson until 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	until 21/05/2019
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the project development committee of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the board of directors, ADO Properties S.A., Luxembourg	
Chairperson of the audit committee, ADO Properties S.A., Luxembourg	
Member of the investment and finance committee, ADO Properties S.A., Luxembourg	
Member and vice-chairperson of the supervisory board of Assmann Beraten + Planen AG, Berlin	
Stefan E. Kowski	Member until 15/05/2019
Partner at Novalpina Capital LLP, London	

H.12 OTHER FINANCIAL OBLIGATIONS

As at the reporting rate, the other financial obligations of the Group consisted of EUR k 2,395 (previous year EUR k 1,654) in future payments (net) resulting from operating leases and a commitment of EUR k 35,543 (previous year EUR k 7,352) for investment property and property, plant and equipment.

The company has diverse service contracts for IT services, building cleaning, reception staff and security services with a payment obligation of EUR k 2,275 (previous year EUR k 1,289), as well as leases for vehicles from its fleet with a payment obligation of EUR k 111 (previous year EUR k 202). There are also rental agreements in connection with the leasing of properties with a payment obligation of EUR k 9 (previous year EUR k 163).

These operating leases serve the company's ongoing business operations and are advantageous in that intensive investment measures and the corresponding outflow of cash are not necessary. The operating leases are not considered risky.

The expenses for minimum lease instalments in the 2019 financial year totalled EUR k 119 (previous year EUR k 211).

H.13 SHAREHOLDING LIST

As at 31 December 2019, TLG IMMOBILIEN holds interest in the following fully consolidated companies:

	Name and registered offices of the company	Shareholding	Equity as at 31/12/2019 in EUR k	Results of the 2019 financial year in EUR k	Shareholding Direct/indirect
1	Hotel de Saxe an der Frauenkirche GmbH, Dresden[2,3]	100.00%	22,200	0	Direct
2	River Berlin Immobilien GmbH & Co. KG, Berlin[1]	94.90%	2,025	78	Indirect
3	River Bonn Immobilien GmbH & Co. KG, Berlin[1]	94.90%	2,289	133	Indirect
4	River Düsseldorf Immobilien GmbH & Co. KG, Berlin[1]	94.90%	1,160	–34	Indirect
5	River Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90%	13,013	–1,259	Indirect
6	TLG Reserve1 GmbH & Co. KG, Berlin[1]	100.00%	0	–1	Direct
7	TLG BES GmbH, Berlin[2,4]	100.00%	n/a	n/a	Direct
8	TLG Beteiligungsgesellschaft mbH, Berlin[2]	100.00%	23	–2	Direct
9	TLG BN 1 GmbH & Co. KG, Berlin[1] (from 01/01/2020 TLG BN 1 GmbH, Berlin)	100.00%	88,651	1,501	Direct
10	TLG CCF GmbH, Berlin[2,3]	100.00%	94,025	0	Direct
11	TLG EH1 GmbH, Berlin[2,3]	94.90%	17,550	0	Direct
12	TLG EH2 GmbH, Berlin[2,3]	94.90%	28,834	234	Direct
13	TLG FAB GmbH, Berlin[2,3]	94.90%	27,896	0	Direct
14	TLG Finance S.à r.l., Luxemburg	100.00%	2,806	–94	Direct
15	TLG Fixtures GmbH, Berlin[2,3]	100.00%	359	0	Direct
16	TLG HH1 GmbH & Co. KG, Berlin[1,4] (from 01/01/2020 TLG HH 1 GmbH, Berlin)	100.00%	58,521	940	Direct
17	TLG MVF GmbH, Berlin[2,3]	100.00%	73,025	0	Direct
18	TLG Sachsen Forum GmbH, Berlin[2,3]	100.00%	24,104	0	Direct
19	Triangel Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90%	12,983	–723	Indirect
20	WCM Besitzgesellschaft mbH & Co. KG, Berlin[1] (from 01/01/2020 WCM Besitzgesellschaft GmbH, Berlin)	100.00%	25	56	Indirect
21	WCM Beteiligungs- und Grundbesitz Aktiengesellschaft, Frankfurt/Main	92.53%	252,121	7,990	Direct
22	WCM Beteiligungsgesellschaft mbH & Co. KG, Berlin[1]	100.00%	–8,441	–6,002	Indirect
23	WCM Fixtures GmbH, Berlin[2]	100.00%	53	–35	Indirect
24	WCM Handelsmärkte I GmbH, Berlin[2]	94.90%	683	100	Indirect
25	WCM Handelsmärkte II GmbH, Berlin[2]	94.90%	1,178	321	Indirect
26	WCM Handelsmärkte IV GmbH & Co. KG, Berlin[1]	94.90%	17,859	156	Indirect
27	WCM Handelsmärkte IX GmbH & Co. KG, Berlin[1]	94.80%	6,311	10	Indirect
28	WCM Handelsmärkte VII GmbH & Co. KG, Berlin[1]	94.90%	5,924	–18	Indirect
29	WCM Handelsmärkte X GmbH & Co. KG, Berlin[1]	94.80%	5,395	–15	Indirect
30	WCM Handelsmärkte XI GmbH & Co. KG, Berlin[1]	94.80%	3,494	–924	Indirect
31	WCM Handelsmärkte XII GmbH & Co. KG, Berlin[1]	94.80%	2,014	10	Indirect
32	WCM Handelsmärkte XIII GmbH & Co. KG, Berlin[1]	94.00%	2,203	356	Indirect
33	WCM Handelsmärkte XIV GmbH & Co. KG, Berlin[1]	94.00%	4,989	–93	Indirect
34	WCM Handelsmärkte XV GmbH & Co. KG, Berlin[1]	94.00%	5,544	–18	Indirect
35	WCM Handelsmärkte XVI GmbH & Co. KG, Berlin[1]	94.00%	1,207	–59	Indirect
36	WCM Handelsmärkte XVII GmbH, Berlin[2]	94.90%	1,174	–253	Indirect
37	WCM Office I GmbH, Berlin[2]	94.90%	3,832	–262	Indirect
38	WCM Office II GmbH & Co. KG, Berlin[1]	94.90%	2,303	–502	Indirect
39	WCM Office III GmbH & Co. KG, Berlin[1]	94.90%	70	–625	Indirect
40	WCM Office IV GmbH & Co. KG, Berlin[1]	94.90%	1,870	–236	Indirect
41	WCM Vermögensverwaltung GmbH & Co. KG, Berlin[1]	100.00%	24,077	–9,864	Indirect
42	WCM Verwaltungs GmbH, Berlin[2]	100.00%	72	–43	Indirect
43	WCM Verwaltungs I GmbH, Berlin[2]	100.00%	165	40	Indirect
44	WCM Verwaltungs II GmbH, Berlin[2]	100.00%	63	–15	Indirect
45	WCM Verwaltungs III GmbH & Co. KG, Berlin[1]	100.00%	–2,779	–529	Indirect
46	WCM Verwaltungs IV GmbH & Co. KG, Berlin[1]	100.00%	–787	–441	Indirect

[1] According to Sec. 264b HGB, companies are exempted from their obligation to prepare financial statements.
[2] According to Sec. 264 (3) HGB, companies are exempted from their obligation to prepare financial statements.
[3] Profit transfer agreement with TLG IMMOBILIEN AG
[4] Different financial year (30/06). The figures apply to 30 June 2019.

Compared to the previous year, the number of fully consolidated companies decreased by a total of eight companies. For more details, see section C.2.

The financial statements have not yet been ratified in each case. The equity and net income are based on German GAAP.

Associated companies which have been taken into account using the equity method in the consolidated financial statements as at 31 December 2019:

Name and registered offices of the company	Shareholding	Equity as at 31/12/201 in EUR k	Results of the 2019 financial year in EUR k	Shareholding direct/indirect
Aroundtown SA, Luxembourg	15,03%	4,324,522	130,516	direct

This is the published financial statements according to IFRS.

H.14 SUBSEQUENT EVENTS

Merger with Aroundtown SA

In September 2019, in connection with the staggered acquisition of a parcel of 15% of the shares of Aroundtown SA, Luxembourg, TLG IMMOBILIEN AG announced that both companies were striving for negotiations regarding a merger. Consequently, both parties signed a business combination agreement on 18 November 2019. On the same day, Aroundtown SA announced its intention to submit a public takeover offer to the shareholders of TLG IMMOBILIEN in the form of a share swap.

The offer was published on 18 December 2019; the first deadline for the share swap by the shareholders of TLG IMMOBILIEN AG ended on 21 January 2020 with an acceptance rate of 59.37%. The subsequent further acceptance deadline ended on 7 February 2020.

The total number of shares for which the takeover offer was accepted by the end of the second deadline, plus the shares already held directly or indirectly by the bidder on that date, totalled 87,168,686 shares. As at the reporting date, this was equivalent to 77.76% of the share capital and voting rights.

On 19 February 2020, the shares offered by Aroundtown SA as part of the takeover offer were transferred to the shareholders of TLG IMMOBILIEN who had submitted their shares as part of the share swap.

Due to the completion of the share swap and the resulting reduction in the proportion of the free float, the shares were removed from the SDAX upon the closure of the market on 18 February 2020. On 19 February 2020, Aroundtown SA gained control over TLG IMMOBILIEN AG and its subsidiaries.

As part of the merger, Aroundtown SA increased its share capital on 19 February 2020 by means of a capital increase in exchange for contributions in kind, excluding the subscription rights of shareholders, in which 312,688,188 shares were issued. Consequently, TLG IMMOBILIEN AG's stake in the share capital and in the voting rights of Aroundtown SA has decreased to around 12%.

Change of Control

The change of control activates the change-of-control clauses in credit agreements and bond conditions which, in the event of a change of majority, grant the lending banks and bondholders extraordinary rights of termination under certain circumstances. As at 31 December 2019, this concerned a total financial volume of around EUR 1.4 bn, of which around EUR 400 m was attributable to bonds and around EUR 990 m was attributable to bank loans. Some of the banks had already approved the planned merger and change of control in advance and had waived their rights of termination. If the change of control should result in a need to refinance, Aroundtown has committed to cover it with shareholder loans and other financial measures.

As at 27 March 2020, written commitments have been obtained from banks for the entire credit volume of the Group, some of which are tied to specific conditions and duties of cooperation. TLG IMMOBILIEN AG does not expect to make use of Aroundtown SA's financing commitment in connection with its bank loans. On the other hand, extraordinary rights of termination exist for bonds worth EUR 400 m until 27 April 2020. In light of the recent development of the bond price, it is likely that some of the bond holders will exercise their rights of termination. The liquidity support agreed in the business combination agreement with Aroundtown will be available to the company if this should happen. Additionally, TLG IMMOBILIEN holds a considerable amount of cash and can continue to obtain financing via the bond market.

Due to a sufficient volume of hidden reserves, the change of control will not bring about a forfeiture of TLG IMMOBILIEN AG's existing loss carryforwards; the partial forfeiture of loss carryforwards at WCM will not affect the recognised deferred taxes.

Property transactions

Under the purchase agreement dated 5 February 2020, three commercial properties were acquired for a total investment of EUR 47 m. For this purpose, three limited liability companies were established in 2020 with TLG IMMOBILIEN AG as their only shareholder. The transfer of benefits and encumbrances for an office building in Berlin which was acquired on 10 December 2019 for a total investment of around EUR 28 m took place on 1 February 2020. The transfer of benefits and encumbrances for the property "Geo-Park Freiberg", which was disposed of in 2019 took place on 1 March 2020.

Corona crisis

Infections with the so-called coronavirus, which has been spreading since end of 2019, are increasingly affecting public life and economies in Germany, Europe and numerous other countries.

Stock exchanges all over the world crashed in March 2020 due to the crisis. This development also hit the market capitalisation of TLG IMMOBILIEN AG and Aroundtown SA. TLG IMMOBILIEN's market value, reflected by its share price, fell below equity as reported in its statement of financial position as at 31 December 2019. This could be considered an indicator for a potential impairment of the values of TLG IMMOBILIEN's non-current assets. Investment property, being the key element of TLG IMMOBILIEN's assets, was measured at fair value as at 31 December 2019; insofar, the lower share price is not conclusive for the value of the investment property.

The assessment of the intrinsic value of the investment in Aroundtown, which also mostly holds investment property, is consistently based on the EPRA NAV which is considered the relevant indicator. At approx. EUR 8.70 by 31 December 2019, the EPRA NAV per Aroundtown share exceeds the carrying amount in TLG IMMOBILIEN's books of EUR 8.60 per share. Therefore, the Management Board does not view the volatile share price development as an indication for a sustained impairment of the shares and has therefore not recognised an impairment loss.

At the moment, it is increasingly apparent that the coronavirus pandemic will have a significant negative effect on the German economy, at least temporarily. It is currently too early to say whether or to what extent these negative developments will continue beyond 2020. Despite the coronavirus pandemic, TLG IMMOBILIEN does not expect the property market to suffer any significant negative effects in the long term. As such, property values are expected to remain stable.

If the coronavirus pandemic does cause the German economy and property market to suffer a long-term downturn, this could cause the market values of properties in TLG IMMOBILIEN's portfolio to decrease. The potential effects of changes to market conditions on the value of the property portfolio are presented in a sensitivity analysis in section E.1 of the notes.

The rental business and liquidity of TLG IMMOBILIEN are predominantly exposed to risks from hotel properties as well as properties which are occupied by tenants operating in the leisure industry or used for gastronomy or non-food retail. As at 31 December 2019, the annualised in-place rent from tenants in these sectors made up approximately 25% of the total annualised in-place rent, which means that bad debt from these properties is not expected to result in liquidity shortages over a limited period of time. Tenants of TLG IMMOBILIEN's hotel properties are mostly large and well-known hotel chains which can be expected to overcome the crisis' financial effects. As at the reporting date, almost half of the annualised in-place rent was attributable to office rentals.

Furthermore, no indications of subsequent events in the sense of IAS 10 have become known.

H.15 DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SEC. 161 AKTG

The Management and Supervisory Boards have fulfilled the recommendations of the German Corporate Governance Code as set out in the corporate governance report. The declaration of compliance will be made available to the shareholders when the annual report for 2019 is published in the Investor Relations section of the company's website *www.tlg.eu* as well as at *www.ir.wcm.de/en*.

Berlin, 27 March 2020

Barak Bar-Hen Chief Executive Officer (CEO)	Gerald Klinck Chief Financial Officer (CFO)	Jürgen Overath Chief Operating Officer (COO)

INDEPENDENT AUDITOR'S REPORT

TO TLG IMMOBILIEN AG

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

OPINIONS

We have audited the consolidated financial statements of TLG IMMOBILIEN AG, Berlin, and its subsidiaries (the Group), which comprise the consolidated statement of comprehensive income for the fiscal year from 1 January to 31 December 2019, the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the report on the position of the Company and the Group of TLG IMMOBILIEN AG, for the fiscal year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the content of the responsibility statement included in the "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" section of the report on the position of the Company and the Group or the declaration on corporate governance included in the "Corporate governance" section of the report on the position of the Company and the Group.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January to 31 December 2019, and

- the accompanying report on the position of the Company and the Group as a whole provides an appropriate view of the Group's position. In all material respects, this report on the position of the Company and the Group is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the report on the position of the Company and the Group does not cover the content of the responsibility statement included in the "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" section of the report on the position of the Company and the Group or the declaration on corporate governance included in the "Corporate governance" section of the report on the position of the Company and the Group.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the report on the position of the Company and the Group.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the report on the position of the Company and the Group in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the report on the position of the Company and the Group" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the report on the position of the Company and the Group.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. MEASUREMENT OF INVESTMENT PROPERTY

Reasons why the matter was determined to be a key audit matter

The measurement of investment property, which is of material significance for the Group's assets and liabilities, involves the use of numerous valuation inputs requiring considerable judgments and assumptions by the management board. Fair values are generally determined on the basis of the highest and best use of the property. The highest and best use of the property is determined on the assumption that it is technically possible, legally permissible and financially feasible. Additional assumptions are made, in particular, about the future development of realizable rents, the future development of the vacancy rate, the discount and capitalization rates and future repairs and investments. These assumptions entail significant uncertainty.

In light of the large number of properties, the complexity of the valuation methods and the assumptions requiring the use of judgment by the executive directors, we consider the measurement of investment property to be a key audit matter.

Auditor's response

We assessed and tested the process and internal controls in relation to the correctness of the input data (such as rental space, term of rental agreement, agreed current rent, rent adjustment clause, relevant repairs and investments) used to measure investment property.

In light of the real estate-specific assumptions to be made, we included internal real estate experts (MRICS – Professional Member of the Royal Institution of Chartered Surveyors) in the audit team.

For a sample, we obtained an understanding of and assessed the method used to value properties by reference to valuation methods customary in the industry. Together with our internal real estate experts, we then questioned the Company's external expert about the valuation model and the assumptions (such as realizable rents, vacancy rate, discount and capitalization rates and relevant repairs and investments). We also assessed the qualifications and objectivity of the external expert and the suitability of that work as audit evidence for the measurement of investment property.

As part of our procedures, we reconciled a sample of the agreed rents which were available to the expert for the valuation with the underlying rental agreements. We also compared the significant assumptions concerning market rents and the capitalization and discount rates for real estate with the information available to us from external databases. With regards to properties whose fair value was measured based on the expectation that they would be used in a manner that differs from their current use, we assessed the assumption that such different use is technically possible, legally permissible and financially feasible, in addition to the valuation performed by the external expert.

In addition, we performed analytical procedures relating to the change in the market values of each property for a sample of properties, analyzing whether the development of the value drivers (e.g., annual basic rent, useable space, vacancy rate, discount and capitalization rates, gross multiplier) is consistent with the development of the market value of the respective property.

Our audit procedures did not lead to any reservations relating to the measurement of investment property.

Reference to related disclosures

Please refer to the information provided by the management board on investment property in the notes to the consolidated financial statements (section E.1 "Investment property") and in the report on the position of the Company and the Group (section 2.2 "Course of business").

2. RECOGNITION OF THE EQUITY INVESTMENT IN AROUNDTOWN SA

Reasons why the matter was determined to be a key audit matter

The equity investment in Aroundtown SA, Luxembourg, acquired in the fiscal year 2019, is a material asset of TLG IMMOBILIEN AG and has an impact on the assets, liabilities, financial position and financial performance of TLG IMMOBILIEN AG as it is accounted for using the equity method.

The assessment whether the equity investment in Aroundtown SA, Luxembourg, qualifies as an associate which must be accounted for using the equity method in the consolidated financial statements due to the existence of significant influence is of key importance with respect to the Group's assets, liabilities and financial performance. This assessment involves considering the indicators for the existence of significant influence and therefore includes an element of judgment.

The assessment of the executive directors of TLG IMMOBILIEN AG of indications that the shares in Aroundtown SA accounted for using the equity method may be impaired as of 31 December 2019 is subject to judgment.

In light of the use of judgment made by the executive directors and the resulting effects on the consolidated financial statements of TLG IMMOBILIEN AG, we consider the recognition of the equity investment in Aroundtown SA to be a key audit matter.

Auditor's response
On the basis of contracts, the correspondence available to us, our inquiries of the external legal advisors and the resolutions adopted at the general meeting of Aroundtown SA, we assessed whether TLG IMMOBILIEN AG has the possibility to exert significant influence on Aroundtown SA considering its interest of 15.03% (i. e., of less than 20% of Aroundtown SA's capital stock).

Furthermore, we analyzed the recognition of the equity investment in Aroundtown SA to establish whether it was correctly recognized initially at cost in accordance with IAS 28.10. In this context, we assessed the amount of costs by reference to contracts, payment receipts and invoices. In accordance with IAS 28.35, the portion of Aroundtown SA's earnings attributed to TLG IMMOBILIEN AG for the period from 1 September to 31 December 2019 must be determined using consistent accounting policies. We reviewed the publicly available quarterly financial statements from the year 2019, Aroundtown SA's audited consolidated financial statements as of 31 December 2018 and the relevant parts of the prospectus for Aroundtown SA's public takeover offer for the acquisition of the shares of TLG IMMOBILIEN AG of 17 December 2019 and interviewed the management of Aroundtown SA about the accounting policies to identify any potential recognition and measurement differences.

We analyzed the changes in the carrying amount of the Group's share in the net assets of the associate from the acquisition date to 31 December 2019 on the basis of the audited consolidated financial statements of Aroundtown SA as at 31 December 2019 and the rolled forward carrying amount of TLG IMMOBILIEN AG.

To evaluate the executive directors' assessment of the underlying value of the equity investment in Aroundtown SA, we initially examined the underlying process and its suitability for assessing the underlying value of the equity investment. We also appraised the executive directors' assessment of whether objective evidence of impairment as defined by IAS 28.41a and IAS 28.41c existed as a result of a loss event.

Our procedures did not lead to any reservations relating to the accounting for the equity investment in Aroundtown SA.

Reference to related disclosures
Please refer to the information provided by the management board on the recognition of the equity investment in Aroundtown SA in the notes to the consolidated financial statements (sections C.2 "Methods of consolidation," D.4 "Impairments of non-financial assets," D.23 "Major discretionary decisions and estimates," E.3 "Shares in companies measured at equity," H.13 "Shareholding list" and H.14 "Subsequent events").

Other information
The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act] and the supervisory board's declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG. In all other respects, the executive directors are responsible for the other information.

The other information comprises the declaration on corporate governance included in the "Corporate governance" section pursuant to Sec. 289f (2) in conjunction with Sec. 315d HGB and the declaration of compliance with the Corporate Governance Code in accordance with Sec. 161 AktG in the report on the position of the Company and the Group as well as the responsibility statement included in the section entitled "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" of the report on the position of the Company and the Group.

The other information also includes the other elements of the annual report, except for the audited consolidated financial statements and the report on the position of the Company and the Group and our auditor's report, in particular the sections "Report of the supervisory board" and "Corporate governance report and declaration on corporate governance."

We obtained a version of this other information before issuing our auditor's report.

Our opinions on the consolidated financial statements and on the report on the position of the Company and the Group do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the report on the position of the Company and the Group or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the report on the position of the Company and the Group

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the report on the position of the Company and the Group that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a report on the position of the Company and the Group that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the report on the position of the Company and the Group.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the report on the position of the Company and the Group.

Auditor's responsibilities for the audit of the consolidated financial statements and of the report on the position of the Company and the Group

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the report on the position of the Company and the Group as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the report on the position of the Company and the Group.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this report on the position of the Company and the Group.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the report on the position of the Company and the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the report on the position of the Company and the Group in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the report on the position of the Company and the Group or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the report on the position of the Company and the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the report on the position of the Company and the Group with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the report on the position of the Company and the Group. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting held on 21 May 2019 and were engaged by the supervisory board on 18 October 2019. We served as the auditor of TLG IMMOBILIEN GmbH from fiscal year 1999 to 2013. Since fiscal year 2014 we serve as the auditor of TLG IMMOBILIEN AG without interruption.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stefanie Kreninger.

Berlin, 27 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Kreninger	Pilawa
Auditor	Auditor
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

12 MAY 2020
Publication quarterly financial report Q1/2020

26 MAY 2020
Annual general meeting

12 AUGUST 2020
Publication quarterly financial report Q2/2020

12 NOVEMBER 2020
Publication quarterly financial report Q3/2020

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