WE GENERATE VALUE

ANNUAL REPORT 2018

TLG IMMOBILIEN

CONTENTS

This schematic illustration shows the volume study for the construction of three office buildings on Alexanderplatz in Berlin.

KEY GROUP FIGURES ACCORDING TO IFRS

	Unit	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change in %
Earnings indicators				
Rental income	in EUR k	223,886	168,310	33.0
Net operating income from letting activities (NOI)	in EUR k	196,726	154,904	27.0
Disposal profits	in EUR k	7,833	10,377	–24.5
Net income	in EUR k	310,946	284,373	9.3
Funds from operations (FFO)	in EUR k	133,990	102,683	30.5
FFO per share[1]	in EUR	1.30	1.29	0.8

	Unit	31/12/2018	31/12/2017	Change
Balance sheet metrics				
Investment property	in EUR k	4,067,527	3,383,259	20.2 %
Cash and cash equivalents	in EUR k	153,893	201,476	– 23.6 %
Total assets	in EUR k	4,320,847	3,835,748	12.6 %
Equity	in EUR k	2,157,239	1,936,560	11.4 %
Equity ratio	in %	49.9	50.5	– 0.6 pp
Interest-bearing liabilities	in EUR k	1,579,442	1,541,692	2.4 %
Net debt	in EUR k	1,425,549	1,340,216	6.4 %
Net LTV[2]	in %	34.7	39.2	– 4.5 pp
EPRA NAV, adjusted	in EUR k	2,715,723	2,112,689	28.5 %
EPRA NAV, adjusted, per share[1]	in EUR	26.27	20.71	26.8 %

	Unit	31/12/2018	31/12/2017	Change
Key portfolio performance indicators				
Property value[3]	in EUR k	4,109,449	3,400,582	20.8 %
Lettable area	in sqm	1,912,793	1,875,072	37,720 sqm
Property value per sqm	in EUR/sqm	2,148	1,814	18.5 %
Properties	number	409	426	– 17 units
EPRA Vacancy Rate	in %	3.3	3.6	– 0.3 pp
WALT	in years	6.1	6.3	– 0,2 years
Annualised in-place rent[4]	in EUR k	227,154	214,057	6.1 %
Average rent	in EUR/sqm	10,44	10.05	3.9 %
In-place rental yield	in %	5.5	6.3	– 0.8 pp
Average market rent	in EUR/sqm	11.27	10.05	12.1 %
In-place rental yield on market rent	in %	6.2	6.6	– 0.4 pp

1 Total number of shares as at 31 December 2017: 102.0 m, as at 31 December 2018: 103.4 m. The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.
2 Calculation: Net debt divided by real estate assets; for the composition see page 74
3 In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5.
4 The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

See "Portfolio facts and figures"
→ Portfolio overview p. 27

Page reference

Link

Portfolio Facts and Figures

NEW HORIZONS

SUSTAINABLE VALUE GROWTH THROUGH ACTIVE PORTFOLIO, ASSET AND PROPERTY MANAGEMENT

TLG IMMOBILIEN was once again able to improve its most important performance indicators significantly in 2018. The value of its portfolio increased by 21% to around EUR 4.1 bn. This value growth was driven mainly by the successful conclusion of rental agreements, remeasurements and acquisitions. The shareholders of the company enjoyed a 9.4% increase in the share price and a dividend yield of over 3% in the financial year. The new management has initiated the next phase of growth by defining four strategic packages of measures with a view to improving the total shareholder return sustainably. Alongside even more active asset and property management and construction and conversion measures designed to increase the value of selected own properties, the portfolio remains focused on acquisitions of properties with potential for value growth and the disposal of non-strategic properties. The highly solid financing structure of the company combined with its Net LTV of around 35% will generate room to manoeuvre when it comes to financing future investments.

EUR 0.91
proposed dividend based on 103.4 m shares as at 31 December 2018

Following funds from operations (FFO) of EUR 134.0 m in 2018, the company intends to increase its FFO by between 4.4% and 6.7% to between EUR 140 m and EUR 143 m. At this year's general meeting, the Management Board and Supervisory Board will propose the payment of a dividend of EUR 0.91 per share. The adjusted EPRA Net Asset Value per share increased by 26.8% in the 2018 financial year, resulting in a total shareholder return of EUR 6.38 per share for 2018 with consideration for the dividend of EUR 0.82 per share paid in 2018.

INTERVIEW

A FOCUS ON THE TOTAL SHAREHOLDER RETURN

» TLG IMMOBILIEN is focused on investments and active value generation in its portfolio «

JÜRGEN OVERATH, COO, AND GERALD KLINCK, CFO

Under the new leadership of Gerald Klinck and Jürgen Overath, TLG IMMOBILIEN will continue the successful development it has achieved so far whilst generating substantial value for all of the stakeholders of the company with a new strategic focus. Active portfolio, asset and property management with a view to generating higher rental income, investments in generating rental and value growth in the property portfolio and external growth will improve the value of the company and its profitability in the long term. This strategy is based soundly on the efficient, balanced financing structure of the Group. The shareholders will profit from dividends and increases in NAV. The new Management Board of the Group explains its strategy in detail in the interview.

Mr Klinck, Mr Overath, you took over the management of TLG IMMOBILIEN in September 2018. How well prepared is the company for the challenges it will face in the future?

GERALD KLINCK The great strengths of TLG IMMOBILIEN are definitely its well-balanced portfolio of office, retail and hotel properties as well as its current financing structure. Through our properties, we are active mostly in steadily growing markets such as Berlin, the Rhine-Main area, Dresden and Leipzig. In light of our current portfolio of high-quality properties in central core locations and the ongoing supply shortage combined with strong demand, we still see significant potential for value growth.

JÜRGEN OVERATH Peter Finkbeiner and Niclas Karoff, our predecessors on the Management Board, have put the company in a very solid position. Additionally, the value of our portfolio has more than doubled to EUR 4.1 bn since the IPO at the end of 2014. The in-place rental yield is attractive, vacancy rates are very low and the majority of the properties have rental agreements that are nowhere close to approaching the end of their terms. As such, we and our shareholders have all fared exceptionally well over the past few years. However, a change of strategy is now required given the changing general conditions in the sector.

What does that mean specifically, what is happening in the sector and how will you respond?

JÜRGEN OVERATH Ifo statistics indicate that the dynamism of the economy is weakening and the prices of high-quality properties – the only type of property we would consider – have increased significantly in recent years. This means that it is growing increasingly difficult to make acquisitions at rates that leave room for value growth. As such, we have to focus on potential that will make us less dependent on economic cycles. This is where our augmented strategy comes in.

What will change compared to the previous highly successful approach?

GERALD KLINCK TLG IMMOBILIEN will focus even more heavily on its total shareholder return. This means that we will strive to improve our performance by maximising our operating income, primarily rent, and increasing the value of our properties sustainably. We have therefore defined four central strategic packages of measures: significantly more active portfolio, asset and property management than in the past, increasing the value of portfolio properties with construction and development measures, stricter separation between strategic and non-strategic properties with the option to dispose of properties in order to generate resources and a consistent focus on acquisitions with the potential for value growth.

Could you briefly explain the criteria by which you will make decisions affecting your property portfolio?

JÜRGEN OVERATH In order to define exactly what we are planning with which properties, we have carried out a detailed analysis of our entire portfolio and categorised the properties into a strategic and a non-strategic portfolio. The strategic portfolio contains all properties with significant potential for rental and value growth and properties where we can generate value through strategic investments. Additionally, the strategic portfolio contains properties that generate a solid, sustainable cash flow with negligible asset management work on our part. Overall, such properties make up around 90% of our portfolio value. The non-strategic portfolio contains all properties that are to be sold over the next few years. Those properties are worth around EUR 400 m on our books. We will then implement the four aforementioned strategic packages of measures on the basis of this categorisation.

Could you please add a few more details?

GERALD KLINCK I will start with an example of what we consider to be successful active asset management: in November, we were able to secure a ten-year rental agreement with a new, creditworthy tenant for around 15,000 sqm of space in the commercial property “Spreestern” in the heart of Berlin. In light of the significantly higher rents that are consistent with the market and the location, our revenue from this agreement will be significantly higher than it was in 2018. This will increase the value of our properties and our portfolio has even more similar potential.

JÜRGEN OVERATH A few months ago, we carried out an extensive, detailed analysis of all of our properties. One focal point of the analysis was to identify opportunities to make additional investments in our existing land and buildings that might increase the long-term value of the properties. That might be adding new floors for offices to a centrally located retail property or even a large-scale project such as the update we released in October 2018 concerning the expansion of our already comprehensive property portfolio on Alexanderplatz in Berlin.

That announcement attracted a lot of attention outside of Berlin too. What are you planning?

JÜRGEN OVERATH Without a doubt, Alexanderplatz in Berlin is one of the most famous squares in Europe. Our expansion plans, which have already been presented to the Baukollegium in Berlin, involve the construction of three buildings including two towers. This can generate around 100,000 sqm of additional gross floor space. It is not difficult to calculate what this could mean for the current market rent for office space in Berlin Mitte. Besides Alexanderplatz, building permits are currently being obtained for three other projects. One is also in Berlin and the two others are in Dresden where we will build office and commercial buildings on undeveloped, centrally located plots of land that belong to our portfolio.

»Active portfolio, asset and property management across all asset classes combined with tapping potential for development will serve as the basis of our profitable growth in future.«

JÜRGEN OVERATH, COO

Jürgen Overath was appointed to the Management Board of TLG IMMOBILIEN AG as Chief Operating Officer (COO) in September 2018. He has worked in the real estate sector for over 25 years and specialises in commercial properties. Before moving to TLG IMMOBILIEN, Jürgen Overath was the Managing Director for Germany of SSN Development, a subsidiary of the Swiss SSN Group which specialises in development projects. Previously, he spent many years on the management board of DO Deutsche Office and as COO of DIC Asset AG. Jürgen Overath is a qualified business economist.

Jürgen Overath has been appointed as a member of the Management Board until December 2021.

He is in charge of the following departments:

- Asset Management (including renting and technical equipment)
- Development
- Portfolio Management
- Property Management
- Auditing
- Transaction Management
- Corporate Communications

What is the scale of the investment on Alexanderplatz?

JÜRGEN OVERATH The total scale of this project depends on the actual construction measures, of course, although we are expecting to invest hundreds of millions of euros over the years. And the myriad of other measures with potential for value growth that we have identified, especially in our retail portfolio, will be of a similar nature. As such, we will probably invest over a billion euros over the next few years. However, we will definitely not become project developers; we will remain portfolio optimisers.

And where will the money for this come from?

GERALD KLINCK Another major strength of TLG IMMOBILIEN comes to light when we consider finance: our solid statement of financial position with our superb firepower on the scale of around EUR 1 bn. For example, our maximum limit on our Net LTV is 45%. We currently have a value of under 35%. At the end of 2018, we even had an average interest rate of 1.83%. Additionally, we generate a large cash flow from renting and future acquisitions that we will also be able to utilise. With regard to Alexanderplatz, we have already received numerous enquiries from other investors who would be happy to take part. We are going to examine this very carefully. TLG IMMOBILIEN has highly diversified financing options that we will use to generate long-term value growth. One thing remains important to us: We are committed to sound accounting and will certainly not take part in any risky enterprises.

You mentioned disposals – what scale might be reached?

JÜRGEN OVERATH Our portfolio analysis identified properties with a current value of around EUR 400 m and a current total annualised in-place rent of around EUR 30.7 m as properties that are to be disposed of. They are mainly retail properties in the non-food segment or in regions with poor development prospects. There is absolutely no pressure to sell on the current rental agreements in these properties, although we do want to shift our focus to the aforementioned investment options in promising locations and generate resources for them too. When there is sufficient demand, our objective is to achieve a total sales price that is higher than the current recognised values. TLG IMMOBILIEN has demonstrated that this works in recent years by, for example, disposing of properties worth EUR 191.9 m since 2015 and generating additional value in the process. In the first quarter, we also disposed of a portfolio of 29 small retail properties for around EUR 118 m that had no further potential for development for us.

You said that acquisitions have gotten increasingly difficult – what might you be referring to?

JÜRGEN OVERATH The time for bargains is long since past. We will certainly continue to make acquisitions in future, although we will very carefully analyse the extent to which we will be able to generate value with quality properties in core locations. For example, we will look at vacancy rates, potential for investment and whether it is likely that rents will increase in the foreseeable future. One good example is the recently completed acquisition of an office complex in Bonn with a high, stable long-term net yield of 6.5%.

Does your current portfolio fit this context?

JÜRGEN OVERATH Unlike before – and we owe it to our shareholders in particular – we will be less focused on absolute improvements to earnings and cash flows. We will focus on the total shareholder return. With regard to our asset classes and therefore your question, this means that we will generate additional cash flows and property value growth through active portfolio, asset and property management in connection with our office and retail properties, which will then be reflected in their measurement. Our strategic retail properties that are focused on neighbourhood shopping generate stable cash flows that guarantee the dividend, for example, even if the property markets should become turbulent. And our hotels are an ideal hybrid of stable cash flow generation and value growth.

Getting down to brass tacks, what targets have you set yourself for 2019 and subsequent years?

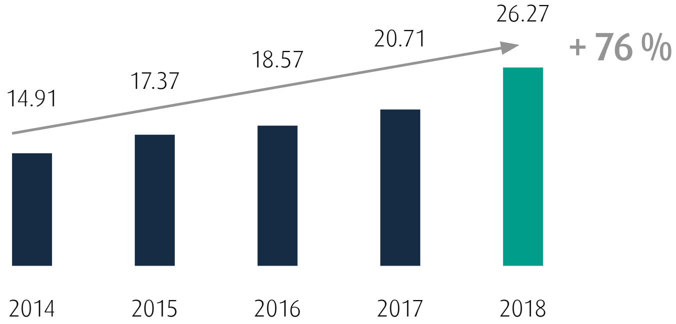
GERALD KLINCK Our promise for the future is this: we will do everything we can to generate sustainable value that benefits all of our stakeholders in all asset classes regardless of the cycle. And we will do it by reporting specific additional key figures in a more transparent manner than before. In 2019, we want to increase FFO by between 4.4% and 6.7% to between EUR 140 m and EUR 143 m. This will be on the basis of our current portfolio. Naturally, future acquisitions and disposals will also have an effect on the FFO forecast. We will strive for a value of EUR 1.35 to EUR 1.38 per share. In the medium to long term, the strategic measures will then pave the way for growth in FFO, property values and share prices regardless of the economic cycle. In the process we will maintain the solid structure of our statement of financial position with our Net LTV of no more than 45%.

How will the shareholders profit from these increases in value?

GERALD KLINCK If we achieve our stated growth targets, it will be reflected in our share price. Additionally, we aim to pay dividends on the scale of around 70% of our FFO in future which will make our dividends immensely interesting. And at this year's general meeting, we will propose granting the shareholders the right to choose between a cash dividend and a scrip dividend, i.e. a dividend consisting of shares, from 2020 onwards.

ADJUSTED NAV PER SHARE WITH FURTHER POTENTIAL

in EUR



»Our portfolio has enormous potential for value growth.«

GERALD KLINCK, CFO

Gerald Klinck has been the Chief Financial Officer (CFO) on the Management Board of TLG IMMOBILIEN AG since September 2018. He has over 20 years of experience in finance in the real estate sector. Most recently, Gerald Klinck was the Chief Controlling Officer on the management board of the DAX-listed Vonovia and Chief Financial Officer of one of its predecessor companies, Gagfah. Previously, he occupied positions including as a member of the Executive Board of Deutsche Wohnen and CFO in the management of HSH Real Estate Consulting. Gerald Klinck holds a master's degree in business administration.

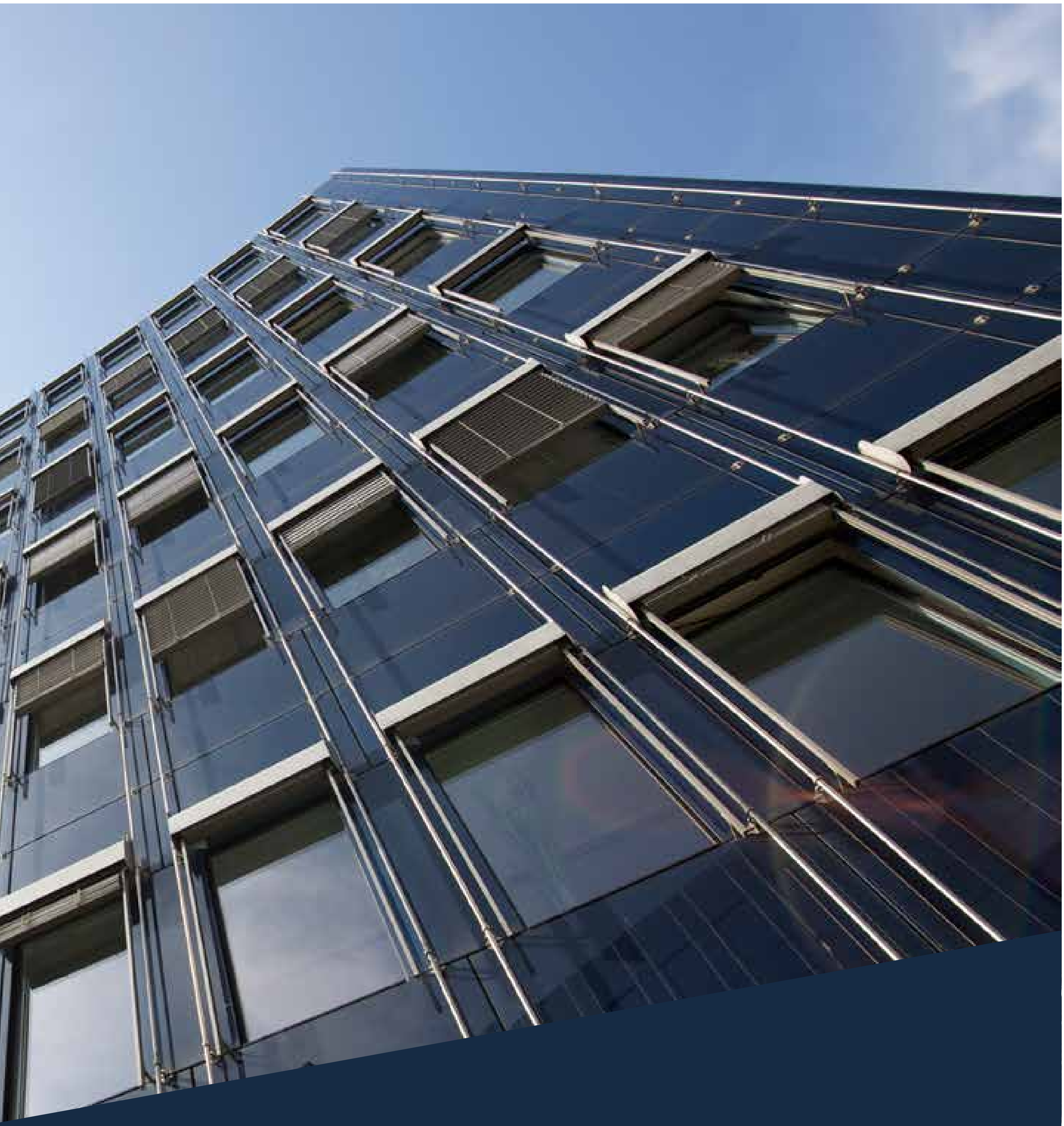
Gerald Klinck has been appointed as a member of the Management Board until August 2022.

He is in charge of the following departments:

- Controlling
- Finance
- Investor Relations
- IT/Corporate Digitalisation
- Human Resources
- Legal
- Accounting
- Auditing
- Taxes

Approx. 70 % of FFO is to be paid out to the shareholders.

Office property "Spreétage", Kaiserin-Augusta-Allee, Berlin → *p. 17*



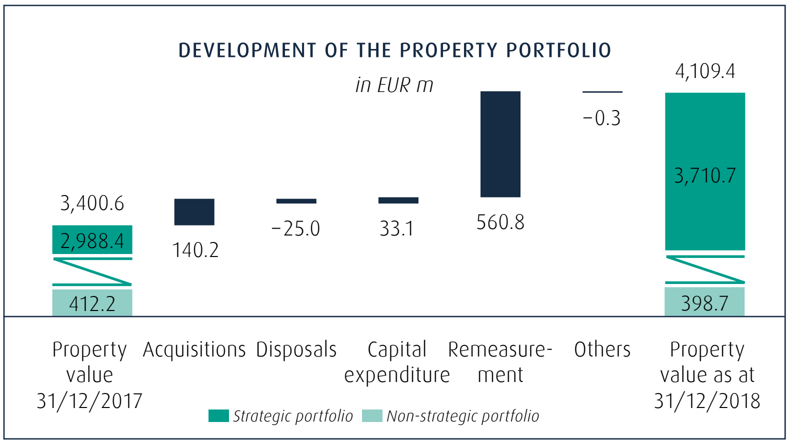
WE GENERATE VALUE

STRATEGY

VALUE GROWTH THROUGH ACTIVE PORTFOLIO, ASSET AND PROPERTY MANAGEMENT

IN THE 2018 REPORTING YEAR, TLG IMMOBILIEN, ONE OF THE LEADING LISTED COMMERCIAL REAL ESTATE COMPANIES IN GERMANY, WAS ABLE TO OPTIMISE ITS KEY PERFORMANCE INDICATORS FOR ITS TOTAL SHAREHOLDER RETURN: RENTAL INCOME AND THE PORTFOLIO VALUE INCREASED DRAMATICALLY AND THE DIVIDEND INCREASED. THE EVOLUTION OF THE COMPANY'S STRATEGY INTO SIGNIFICANTLY MORE ACTIVE PORTFOLIO, ASSET AND PROPERTY MANAGEMENT IS EXPECTED TO ENABLE THE COMPANY TO CONTINUE ITS PROFITABLE GROWTH IN FUTURE AND GENERATE VALUE GROWTH.

The management of TLG IMMOBILIEN intends to strategically position the company in such a way over the next few years that it is able to generate positive returns for its shareholders regardless of economic and sector-specific cycles. The company will focus on increasing its total shareholder return in the long term, i.e. a combination of share price and NAV growth and dividend payments. As such, before they are made, decisions to make investments will be examined in order to ensure that they help pave the way for the best possible performance by increasing operating income and in turn sustainably increasing property values. This strategy is based on the existing portfolio of the company that has been developed gradually over the past few years and that is clearly focused on diversified portfolio quality in three asset classes: office, retail and hotel. TLG IMMOBILIEN was therefore able to expand in the 2018 financial year too. In 2018, the high demand for lettable areas in the core regions and the somewhat dynamic development of local property markets resulted in an increase in the value of the portfolio of the company by 21% to around EUR 4.1 bn (31 December 2017: EUR 3.4 bn). With regard to the internationally comparable EPRA Net Asset Value (EPRA NAV) per share, TLG IMMOBILIEN improved its adjusted EPRA NAV per share from EUR 20.71 to EUR 26.27 and even paid a dividend of EUR 0.82 to its shareholders in 2018 (previous year EUR 0.80).



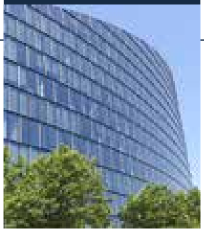
The dynamic growth of the portfolio value was driven largely by remeasurements totalling around EUR 560 m due to the generally positive market developments and the successful conclusion of new rental agreements. Additionally, in the reporting year, properties with a total value of EUR 140.2 m were added to the strategic portfolio. This was counteracted by disposals of non-strategic properties with a total value of EUR 25.0 m (*see page 22*).

A STRATEGIC PORTFOLIO DIVERSIFIED IN THREE ASSET CLASSES

The value growth in the strategic portfolio was spread across all three asset classes. The value of the office asset class increased by 35% from EUR 1,610 m to EUR 2,182 m, the value of the retail asset class increased by 10% to EUR 1,202 m (2017: EUR 1,092 m) and the value of the hotel asset class increased by EUR 41 m to EUR 327 m (growth of 14%). As at the end of 2018, the total portfolio including non-strategic properties comprised 409 properties; 17 fewer than in the previous year.

THE HALLMARKS OF OUR PORTFOLIO

	OFFICE	RETAIL	HOTEL	
A focus on important economic areas and centres	**EUR 2.2 bn** 48 % Berlin 29 % Rhine/Main area 16 % Dresden/Leipzig/Rostock 7 % Other locations	**EUR 1.2 bn** 66 % in important commercial centres 49 % anchor tenants in food retail	**EUR 0.3 bn** 7 Seven high-quality hotel properties in Berlin, Leipzig, Dresden and Rostock	Rental and value growth
Investments intended to increase the value of the portfolio and in property development				NOI growth
Acquisition of attractive properties				Use of scalability and synergies



See "Portfolio facts and figures" → Key portfolio performance indicators p. 27

A FOCUS ON STRONGLY GROWING COMMERCIAL LOCATIONS THROUGHOUT GERMANY

The significant growth in the value of the portfolio was driven largely by the concentration of the properties in strongly growing locations. The persistently high level of demand resulting from the scarcity of available properties is contributing to desirable long-term income and value growth in these largely central office locations. The company's expansion throughout Germany over the past two years has secured additional potential for it. As an active portfolio manager, TLG IMMOBILIEN concentrates on managing office properties in its high-quality portfolio in Berlin, the Rhine-Main area, Dresden, Leipzig and Rostock. In light of the positive development of rents in Berlin, over 80% of the increases in portfolio value generated through remeasurements in 2018 originated from properties owned there. The company also has a regionally diversified portfolio of retail properties in attractive micro-locations in Germany. Its portfolio also includes seven centrally located hotels with well-known operators. All of the hotel locations enjoy excellent locations and have long-term rental and lease agreements. TLG IMMOBILIEN generates stable rental income with low vacancy rates and excellent structural quality. The successes in asset management and in the selection of suitable investment properties are due in no small part to the excellent knowledge of local markets of the employees of TLG IMMOBILIEN as well as its deliberate proximity to each regional market and its tenants through local offices.

THE HALLMARKS OF OUR CURRENT LOCATIONS

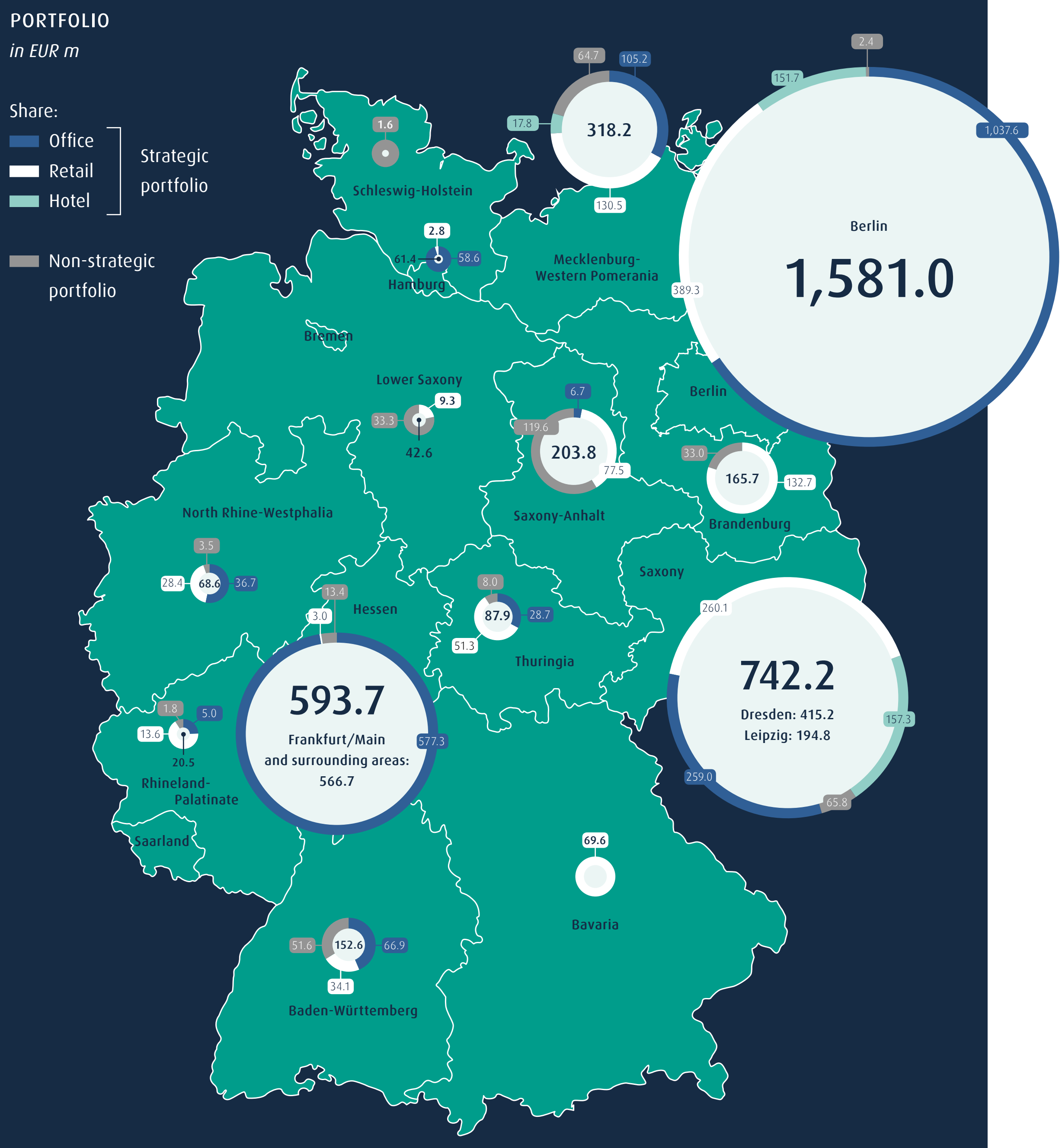
Berlin and surrounding areas	A portfolio with significant potential for rental and value growth Excellent portfolio locations and quality A strong market demand for space provides great future potential for investment
Rhine-Main area	Office properties largely in Frankfurt/Main Falling vacancy rates driven by growing demand
Dresden/ Leipzig	Leading position in eastern German centres with strong potential for growth Portfolio in central locations or strong micro-locations Outstanding potential for future development
Other locations	Portfolio in favourable micro-locations of secondary cities The majority of locations have anchor tenants in the food segment

Office building "HAT64", Bleichstrasse, Frankfurt/Main

The highly diversified portfolio of TLG IMMOBILIEN

REGIONAL DISTRIBUTION OF THE PROPERTY PORTFOLIO BY ASSET CLASS (PROPERTY VALUE)

as at 31 December 2018



	Office	Retail	Hotel	Non-strategic
Total in EUR m	2,181.7	1,202.2	326.7	398.7
Property value in %	53 %	29 %	8 %	10 %

3,349.5 | 90%
Strategic portfolio in total

KEY PERFORMANCE INDICATORS IMPROVED SIGNIFICANTLY IN 2018

Driven by substantially higher rental income in 2018 and the stabilisation of the EPRA Vacancy Rate at a low level, the company was able to improve its key performance indicator FFO by around 30.5% to EUR 134 m. Per share, this corresponds to an increase of 0.8% to EUR 1.30 compared to the end of 2017 (previous year EUR 1.29). The net operating income from letting activities increased by 27% to around EUR 197 m. The EPRA Vacancy Rate decreased slightly by 0.3 percentage points to 3.3%.

FINANCIAL STRENGTH AS A GUARANTEE OF FUTURE GROWTH

With a Net LTV of 34.7%, TLG IMMOBILIEN was far below its own maximum target of 45% at the end of 2018 and will therefore have room to manoeuvre when it comes to financing future investments. Additionally, the company generates a large cash flow from income from letting activities and disposals of non-strategic properties. Furthermore, in recent years TLG IMMOBILIEN has demonstrated that it enjoys great investor confidence when it issued new shares and a bond. This was also reflected in the relatively stable average interest rate for liabilities of 1.83% recognised at the end of 2018 (for details, *see page 26*).

» The evolution of our strategy is tied to investments in the future. TLG IMMOBILIEN is in an outstanding financial position to overcome these challenges. «

GERALD KLINCK, CFO OF TLG IMMOBILIEN

IMPORTANT DECISION-MAKING CRITERIA FOR TLG IMMOBILIEN IN ITS ASSET CLASSES

OFFICE

Increasing rental income and property values for investment properties due to a focus on:

- Established office locations with potential for growth
- Individual property quality
- Low-risk tenant structures and potential for rental growth

RETAIL

Steady cash flow from at least stable rental income and property values due to a focus on:

- Excellent micro-locations with good future prospects
- Attractive commercial indicators (e.g. purchasing power and centrality) especially with regard to local amenities with everyday goods
- Competitive property size and structure – preferably with room for expansion
- Creditworthy tenants

HOTEL

Growing rental income and cash flows due to attractive prices per bed due to a focus on:

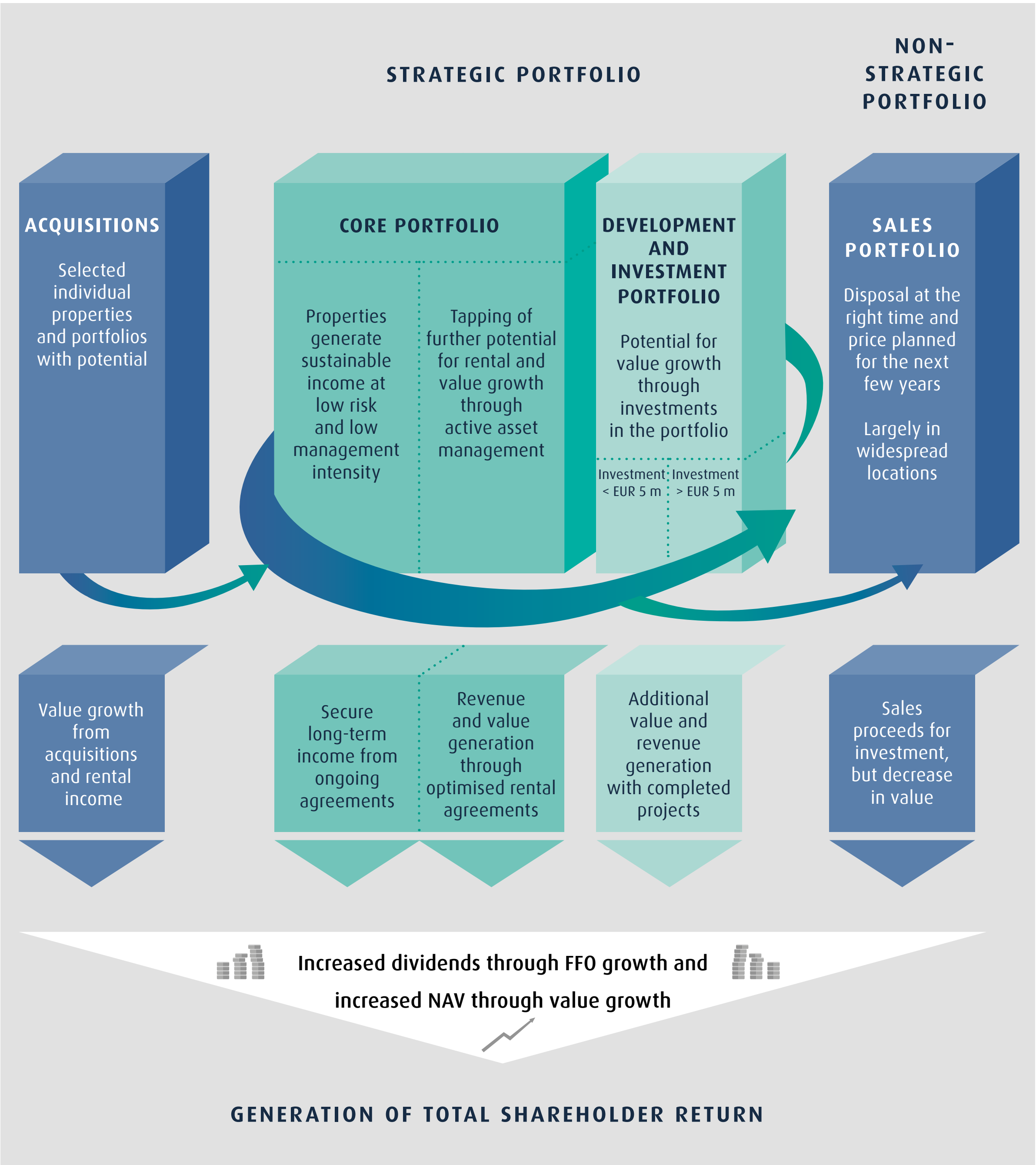
- Top central locations in major cities
- Long-term rental agreements and leases
- Established operators with considerable expertise in the sector

See "Portfolio facts and figures"
→ *Overall portfolio p. 27*

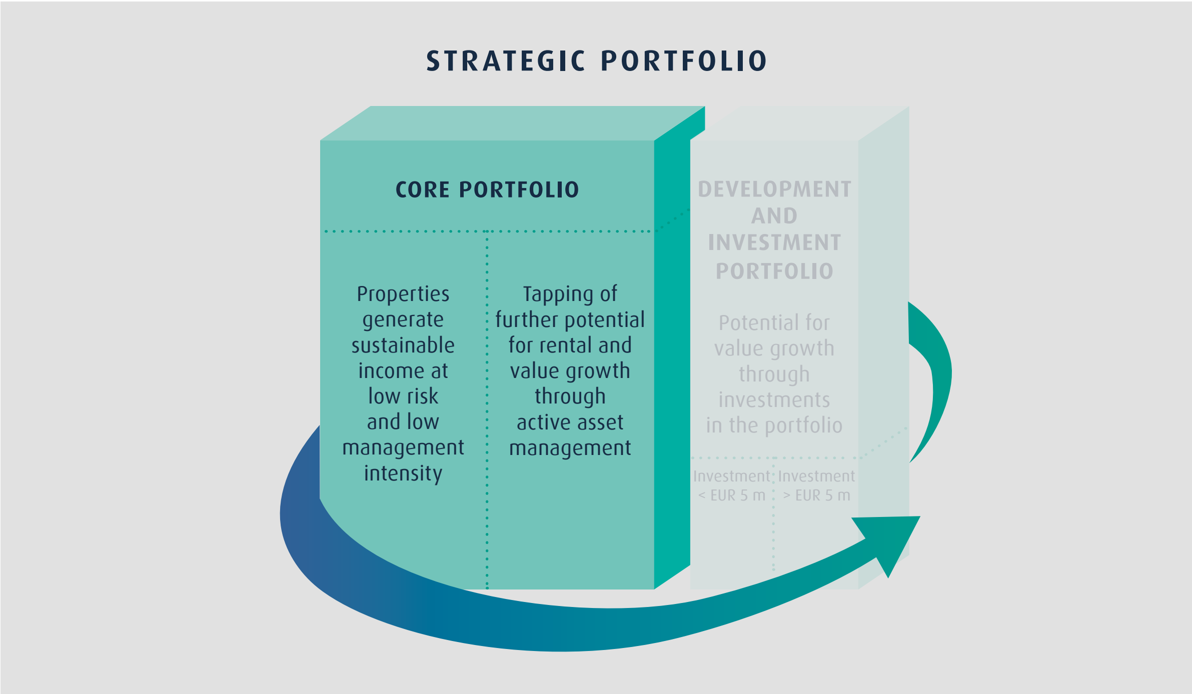
Office building in Mertonviertel, Olof-Palme-Strasse, Frankfurt/Main

EVOLUTION OF STRATEGY FOR SUSTAINABLY PROFITABLE GROWTH

As part of a comprehensive portfolio analysis, the management of TLG IMMOBILIEN has defined four key portfolio clusters and strategic packages of measures encompassing significantly more active portfolio, asset and property management than in the past. All of the properties in the portfolio have been categorised into a strategic and a non-strategic portfolio. The clustering was based on location, structural and property quality, vacancy rates and rental agreement terms. The potential for every property to increase in value is analysed on a regular basis. Depending on the promise of yields and the general conditions, an adjustment in measurement can result in re-allocation. The implementation of the related measures over time is always in the context of achieving a sustainably positive development for the total shareholder return. Over the next few years, properties in the non-strategic portfolio will be disposed of gradually on the basis of favourable market conditions and this way will pave the way for future investments.



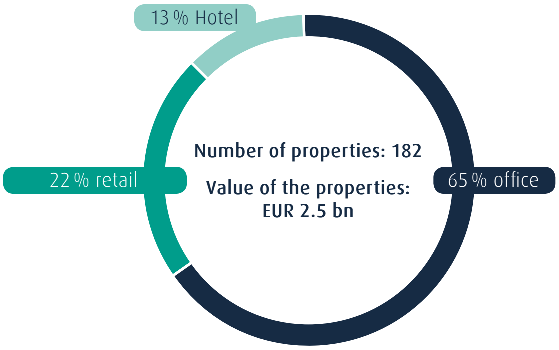
CORE PORTFOLIO: SUSTAINABLE INCOME THROUGH ACTIVE ASSET MANAGEMENT



The core portfolio comprises 182 properties overall which account for EUR 2.5 bn of the total value. Depending on the required intensity of asset management, these properties can be clustered into two sub-categories that are described below. However, it is also possible that, over time, property parameters change in such a way that properties move to the development and investment portfolio or even the sales portfolio.

LOW MANAGEMENT INTENSITY

For one, the properties in the core portfolio generate at least stable cash flows over an extended period and therefore make a significant contribution to the total shareholder return of the company. Such properties are distinguished by their excellent locations, high long-term tenancy rates and low risk. When such a property approaches the end of the term of its rental agreement, the company re-assesses the extent to which the yield contribution can be at least kept stable in future or improved through active asset management or investments.



THE ACTIVE ASSET MANAGEMENT APPROACH

Additionally, the potential for rental and value growth can be generated for a large part of the core portfolio. For example, contractual terms or the tenants in a property can be greatly optimised through active asset management and contribute to the generation of value.

Around EUR 80 m of additional value has been generated through the successful conclusion of new rental agreements in Berlin.

REMEASUREMENT TOTALLING AROUND EUR 80 M FOR TWO PROPERTIES IN BERLIN

A NEW TENANT FOR SPREESTERN

A new rental agreement with a creditworthy governmental tenant and a term of ten years starting in the fourth quarter of 2019 has been signed for around 15,000 sqm of office space in "Spreestern" in Berlin-Charlottenburg. A significantly higher, competitive average rent can now be realised in the property from the fourth quarter of 2019 onwards at no extra investment. According to Savills, the top rent for office space in Berlin increased by 12.6% to EUR 35.80 per sqm in 2018 – the most significant increase in Germany. The average rent was EUR 22.00 per sqm.

Spreestern, Englische Straße, Berlin	As at 31/12 2017	As at 31/12 2018	Change from 31/12/2017 – 31/12/2018	31/12/2018 adjusted[1]	Change 31/12/2017 – 31/12/2018 adjusted
Property value in EUR m	61.6	132.7	+ 115 %	–	–
Annualised in-place rent in EUR m	4.5	4.5	0 %	5.5	+ 24 %
Average rent in EUR/sqm/month	20.84	20.84	0 %	24.23	+ 16 %
WALT in years	1.8	0.8	– 1.0 years	10.8	10 years
EPRA Vacancy Rate in %	0	0	0 pp	0	0 pp

[1] Including the signed rental agreements coming into effect after 31/12/2018


Office building "Spreestern" Englische Strasse, Berlin


Bürogebäude Kapweg, Berlin

KAPWEG NOW FULLY OCCUPIED

Just two years ago, the office property Kapweg in Berlin had a vacancy rate of almost 60%. Within two years, 11,000 sqm of space was rented out to well-known, creditworthy customers. This has increased the annualised in-place rent in the property by over 300% to EUR 2.6 m.

These new rental agreements have made it possible for TLG IMMOBILIEN to increase the value of the property by around EUR 80 m as part of the remeasurement. The property portfolio of TLG IMMOBILIEN still has more potential for value growth in future with regard to the market parameters that apply to the entire Berlin office market in terms of the average rents.

Kapweg, Berlin	As at 31/12 2016	As at 31/12 2017	As at 31/12 2018	Change from 31/12/2016 – 31/12/2018	As at 31/12 2018 adjusted[1]	Change 31/12/2016 – 31/12/2018 adjusted
Property value in EUR m	30.6	41.1	53.6	75 %	–	–
Annualised in-place rent in EUR m	0.7	1.9	2.6	271 %	3.0	329 %
Average rent in EUR/sqm/month	8.06	11.33	13.44	67 %	13.68	70 %
WALT in years	6.0	4.5	5.7	−0.3 years	5.7	−0.3 years
EPRA Vacancy Rate in %	58.5	21.1	11.8	−46.7 pp	1.0	– 57.5 pp

[1] Including the signed rental agreements coming into effect after 31 December 2017

CREDITWORTHY ANCHOR TENANTS ARE STABILISING CASH INFLOWS

Another advantage of the portfolio of TLG IMMOBILIEN is the excellent long-term calculability of its cash inflows and the high degree of risk diversification. For one, this is due to the fact that the ten largest anchor tenants in the 286 strategic portfolio properties accounted for 33.4% of the annualised in-place rent as at 31 December 2018. The sustainability of the cash flows is also reflected in the weighted average lease terms of the rental agreements in the strategic portfolio of 5.5 years for office and retail properties and of over 11 years for hotels.

See "Portfolio facts and figures"
→ Top 10 tenants p. 29

GROWING RENTAL INCOME IN THE STRATEGIC PORTFOLIO

A strong strategic portfolio	As at 31/12 2018 Total	As at 31/12 2018 like-for-like	Change compared to the previous year like-for-like
Property value in EUR m	3,710.7	3,568.5	580.1 *19.4 %*
Annualised in-place rent in EUR m	196.4	187.3	5.7 *3.2 %*
Average rent in EUR/sqm/month	11.05	10.73	0.32
EPRA Vacancy Rate in %	3.3	3.0	−0.6 pp
WALT in years	6.0	6.1	− 0.1 pp

ANNUALISED IN-PLACE RENT IN THE STRATEGIC PORTFOLIO INCREASES BY 8.2% IN 2018 TO EUR 196.4 M

In the 2018 reporting year, the annualised in-place rent in the strategic portfolio increased by 8.2% to EUR 196.4 m. Besides the above examples of new rental agreements, the vacancy rates in the portfolio were lowered through active asset management and the average rents were adjusted to changing general conditions. On a like-for-like basis, i.e. not factoring in the acquisitions and disposals in 2018, the annualised in-place rent increased by 3.2%. This occurred across all asset classes in the strategic portfolio, although the greatest increase (of 5.0%) was realised in office properties and primarily in Berlin. On a like-for-like basis, the EPRA Vacancy Rate decreased by 0.6 percentage points to 3.0% – a comparably low level for the sector. The properties in all asset classes (like-for-like) were almost fully occupied at the end of 2018: office (3.6%), retail (2.1%) and hotel (3.3%).

Due to the steadily positive development of demand and the new rental agreements resulting from this combined with the implementation of modernisation measures, the average rent in the strategic portfolio increased on a like-for-like basis from EUR 10.73 per sqm to EUR 11.05 per sqm.

»Full occupancy ensured through active asset management and the resulting value growth in the office properties Spreestern and Kapweg 3–5 in Berlin require a manageable level of management intensity on our part.«

JÜRGEN OVERATH, COO OF TLG IMMOBILIEN

Office building "Wilsdruffer Kubus", Postplatz, Dresden

NEW RENTAL AGREEMENTS WITH SUCCESSOR TENANTS AT IMPROVED RATES

Office property "Spreétage", Kaiserin-Augusta-Allee, Berlin	As at 31/12/2017	As at 31/12/2018	Change from 31/12/2017 – 31/12/2018	31/12/2018 adjusted[1]	Change 31/12/2017 – 31/12/2018 adjusted
Property value in EUR m	29.5	60.9	106 %	–	–
Annualised in-place rent in EUR m	1.6	1.6	2 %	2.4	+ 53 %
Average rent in EUR/sqm/month	8.93	9.08	1.7 %	14.34	+ 58 %
WALT in years	2.8	1.8	– 1.0 years	7.1	+ 4.3 years
EPRA Vacancy Rate in %	0.7	0.5	– 0.2 pp	0.5 pp	– 0.2 pp

[1] Including the signed rental agreements coming into effect after 31/12/2018

It is advisable to take a detailed look at two examples of rental agreements with successor tenants at improved rates which TLG IMMOBILIEN concluded in the 2018 financial year in order to comprehend the strategic significance of active asset management as a value lever: Despite a new, long-term rental agreement for around 7,800 sqm of space, Spreétage, an office property in Berlin, has even more potential for optimisation as other rental agreements are expiring and can be renegotiated under what are currently excellent market conditions.

Office property "Spreétage" Kaiserin-Augusta-Allee, Berlin

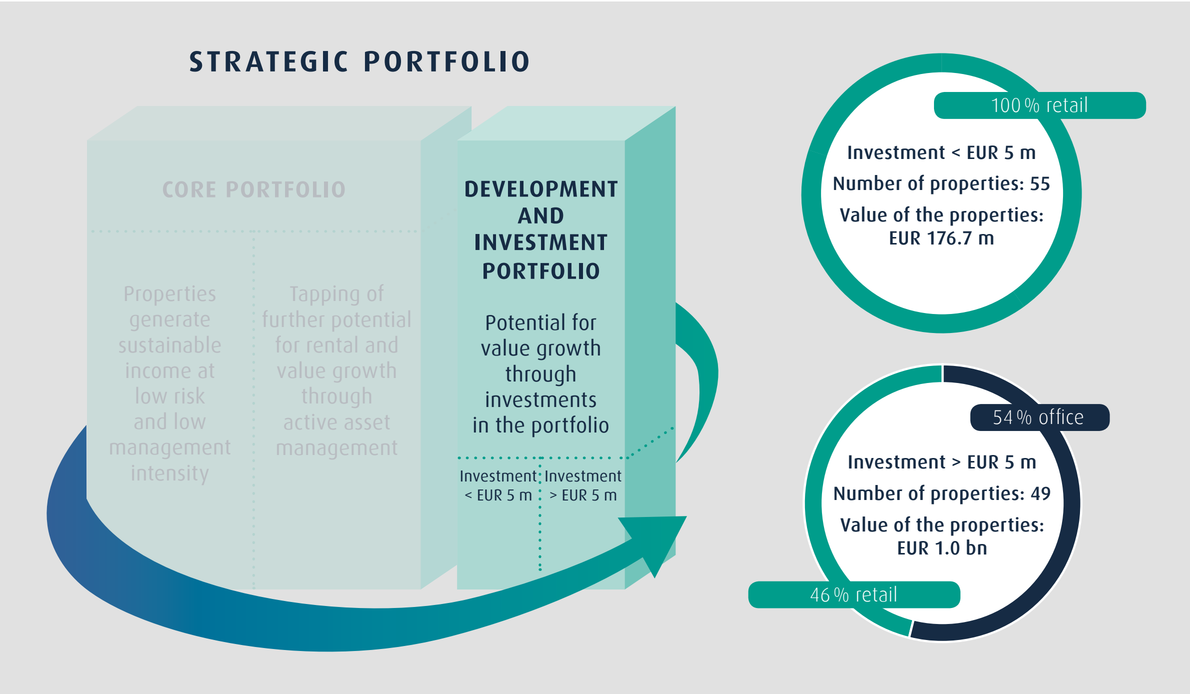
ADJUSTMENT OF RENTS TO MARKET CONDITIONS

In recent years, the value of the office property on Alexanderstrasse in Berlin has increased significantly as the annualised in-place rent has been adjusted gradually through contractual extensions and new agreements. In the second half of 2018 alone, the average rent per square metre adjusted to market conditions increased by 7%. The property is still being managed actively at the moment. In future, it will be moved to the development and investment portfolio as TLG IMMOBILIEN is planning to build three buildings there *(see page 19)*.

Office building Alexanderstrasse, Berlin	As at 31/12/2017	As at 31/12/2018	Change
Average rent in EUR/sqm	13.64	15.02	+ 10 %
Property value in EUR m	120.8	240.1	+ 99 %
Property value in EUR/sqm	2,845	5,650	+ 99 %

Office property Alexanderstrasse, Berlin

DEVELOPMENT AND INVESTMENT PORTFOLIO: VALUE GENERATION THROUGH INVESTMENTS IN THE PORTFOLIO



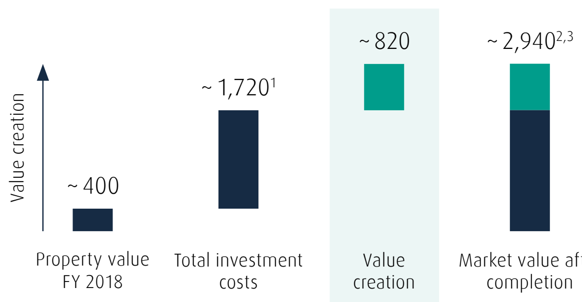
Value growth in the portfolio is becoming increasingly significant even for the widely diversified property portfolio of TLG IMMOBILIEN in light of the considerable increases in property prices in recent years and the declining potential for yield generation through acquisitions. As such, TLG IMMOBILIEN completed its extensive portfolio analysis by February 2019 and examined the potential within its portfolio for further development. The analysis determined that 104 of the 286 properties in the strategic portfolio are suitable for investment. That might be adding new floors for offices to a centrally located retail property or even a large-scale project such as the plans we released in October 2018 concerning the expansion of the already comprehensive property portfolio on Alexanderplatz in Berlin. The investments in excess of EUR 5 m currently have the potential to generate around EUR 1.2 bn in value. Of this amount, around EUR 820 m is attributable to eleven key projects in which the company can invest over the next few years and another approximately EUR 380 m is attributable to properties with potential in the more distant future as building regulations or contracts often prevent acting at shorter notice.

VALUE GENERATION IN THE KEY PROJECTS

Within the next five years, value generation of around EUR 150 m is possible in the cluster of key projects. Another approximately EUR 490 m can be generated in the time frame of six to eight years. The remaining EUR 180 m is based on a period of time longer than eight years. The potential value in these key projects is calculated as follows:

VALUE GENERATION IN 11 KEY PROJECTS

in EUR m



[1] Based on approx. EUR 4,000 per sqm
[2] Expected rent EUR/sqm based on expected future rental space: EUR 26.00
[3] Expected multiple after completion: ~26

VALUE CREATION THROUGH INVESTMENTS IN OWN PORTFOLIO

DEVELOPMENT IN EXCESS OF EUR 5 M

FOUR PROJECTS ARE AWAITING APPROVAL

In addition to the project on Alexanderplatz, building permits are currently being obtained for a project in a central location in Berlin, Annenhöfe in Dresden and another centrally located office project development. All of these projects are attributable to the cluster with investments in excess of EUR 5 m. More details will be published when development rights are obtained through each building permit.

	Alexanderplatz	"Annenhöfe"
Future gross floor space	149,500 sqm	22.300 sqm
Investment volume	EUR 880 m	EUR 60 m
Value creation	EUR 390 m	EUR 11 m

ANNENHÖFE IN DRESDEN IN THE PIPELINE

TLG IMMOBILIEN plans to develop prime real estate situated in the old town of Dresden and create 18,000 sqm of office space by the end of 2021. The drafts for "Annenhöfe" were submitted to the Dresden Gestaltungskommission in late January 2019. The plot of land in question has been in the portfolio of the company since 2010. Given the current stage of the project plans, the application for a building permit will be submitted in the second quarter of 2019.

Planned office building "Annenhöfe", Dresden

LARGE-SCALE PROJECT ON ALEXANDERPLATZ PROMISES ENORMOUS POTENTIAL FOR GROWTH

The project consisting of the construction of three buildings including two towers at Alexanderstrasse 1, 3, 5 at the corner of Karl-Liebknecht-Str. 30 was submitted to the Baukollegium in Berlin in autumn 2018. TLG IMMOBILIEN will now prepare regulated competition proceedings which are due to start in mid 2019. In total, based on the building plan, the ensemble is to encompass up to 149,500 sqm of potential gross floor space. At the moment, the land is occupied by an office building and a restaurant from the late 1960s with around 55,900 sqm of lettable area. The attractiveness of the location at the moment is reflected by the increase in rental income in the existing office property of over 70% since 2015 to EUR 7.3 m and the increase of around 30% in average rents per square metre per month to EUR 15.02. The total investment volume of this project is dependent on the current building plans; TLG IMMOBILIEN expects to invest hundreds of millions of euros over the full term of the project.

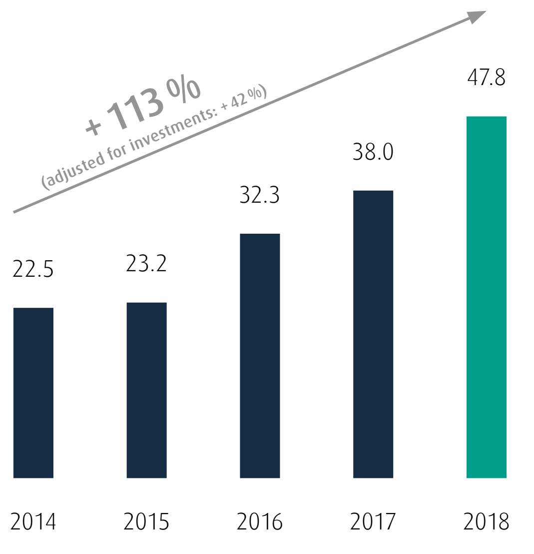
Newly constructed Netto market, Am Dresdener Berg, Oschatz

SIGNIFICANT POTENTIAL IN 30–50 RETAIL PROPERTIES

The expansion, modernisation or even conversion of existing retail locations can create the potential to create significant amounts of additional lettable area in 30–50 properties in the portfolio of TLG IMMOBILIEN. For example, existing retail properties could be extended or demolished and rebuilt on a larger scale. Even adding new floors for offices to centrally located retail properties is an option. Investments far in excess of EUR 100 m are to be made in such projects over the next few years; however, as no additional plots of land have to be acquired, the expected value growth promises an exceptional return on investment and substantially higher cash flows in light of the relatively small investment.

VALUE INCREASE OF 13 RETAIL PROPERTIES THROUGH INVESTMENT MEASURES

in EUR m



Additionally, modern commercial properties now face somewhat different tenant requirements in terms of design, equipment and energy efficiency than they did a few years ago. TLG IMMOBILIEN will take this trend into consideration to a greater extent in future. Extensions and modernisation measures are being carried out at nine food retail properties with a total investment of EUR 16.0 m and another four properties are being fully rebuilt following their demolition. This way, current environmental requirements could be implemented and the operating costs of tenants could be lowered, and the company was even able to renegotiate rental agreements to improve their conditions and extend their terms. Across these 13 properties, this is reflected in the 33% increase in annualised in-place rent to EUR 3.2 m. The average rent increased by 19% to EUR 10.94 per sqm. The weighted average lease term (WALT) of the rental agreements increased from 3.4 years as at the end of 2014 to 11.7 years as at 31 December 2018. Overall, the value of these properties increased by around 113% within four years.

Newly constructed Netto market, Rathener Str., Dresden

INVESTMENTS IN THE RETAIL PORTFOLIO

DEVELOPMENT < EUR 5 M

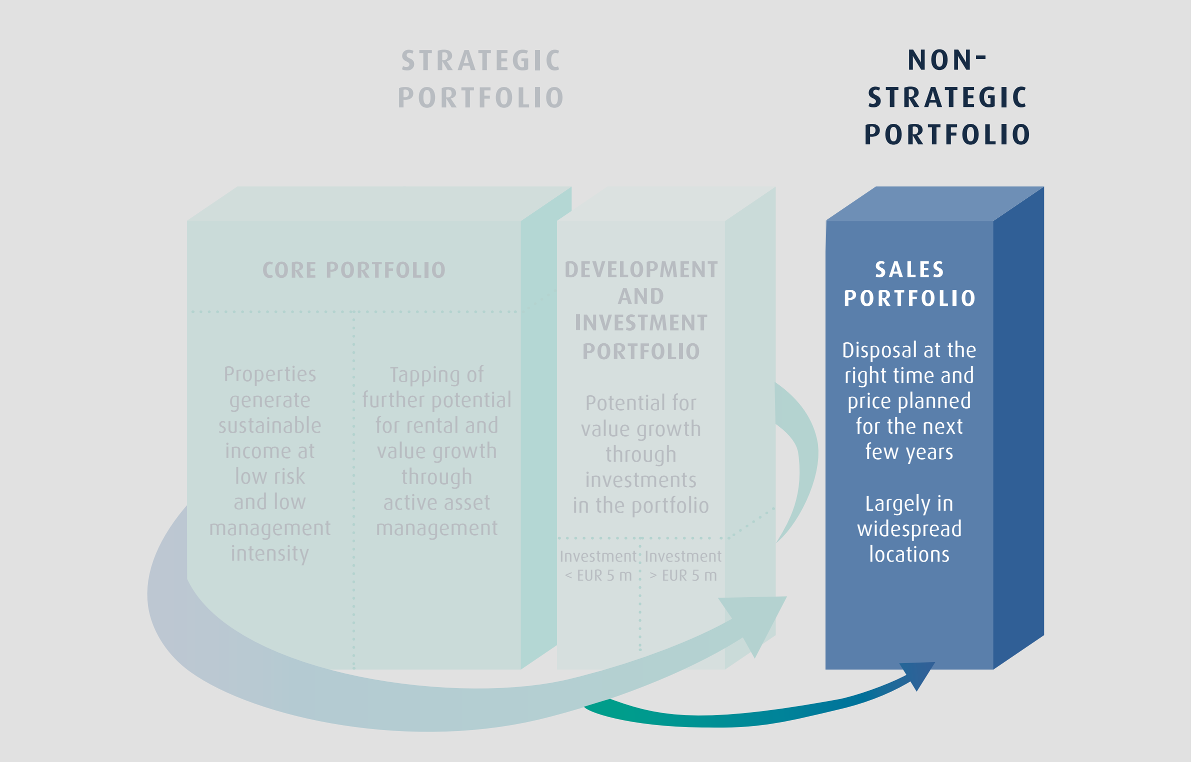
Property	Measure	Plot size in sqm	Date of measure	Lettable area in sqm before measure	Lettable area in sqm after measure	Development of rent in %	Lease term after measure	Net investment
Netto market, Dresden	Demolition & reconstruction	5,434	04–10/2018	1,400	1,486	+ 42 %	15 years	around EUR 1.8 m
Netto market, Döbeln	Demolition & reconstruction	6,141	04–10/2018	1,117	1,496	+ 9 %	15 years	around EUR 2.0 m
Netto market, Oschatz	Expansion, comprehensive modernisation	6,513	08–11/2018	1,132	1,274	+ 34 %	15 years	around EUR 1.0 m

RENTS PER SQUARE METRE UP TO 40% HIGHER

In the fourth quarter of 2018, TLG IMMOBILIEN successfully completed three investment projects in connection with retail properties. In total, around EUR 4.8 m was invested in the construction of two food product markets and in the modernisation and expansion of another property in the neighbourhood shopping segment. Particular attention was paid to optimising the environmental friendliness and energy consumption of the cutting-edge fittings in the markets. The construction measures which lasted from three to six months increased the total lettable area in the markets by 16%. The investments have already started to pay off in 2019. All three properties have been rented out for terms of 15 years ending in 2033. The annualised in-place rent across all three properties has increased by over 40%.

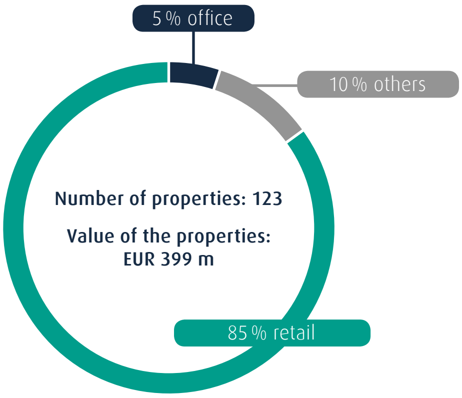
Newly constructed Netto market, Unnaer Str., Döbeln

NON-STRATEGIC PORTFOLIO: IMPROVING THE QUALITY OF THE ENTIRE PORTFOLIO THROUGH DISPOSALS



The analysis defined 123 properties with a total value of EUR 399 m as the non-strategic portfolio. The definitive factor behind this clustering is that the contributions of these properties to the development of the value of the overall portfolio will be below average in future. This cluster is dominated by retail properties (85%), mainly in decentralised locations in sometimes highly rural regions involving a relatively large amount of management work for TLG IMMOBILIEN.

We will calculate the optimal selling price and date with consideration for the situation in the market. In recent years, TLG IMMOBILIEN has even been able to generate proceeds from disposals that were higher than their carrying amounts. This revenue will then be available for investments or acquisitions with the potential for value growth. The exceptionally favourable market situation at the moment will be used for the disposals and the missing rental income will be balanced out by measures in the strategic portfolio. Therefore, the disposals will be synchronised with the measures designed to increase value in the strategic portfolio on a five-year road map.



In recent years, TLG IMMOBILIEN has already disposed of parts of its property portfolio that it no longer considered strategic. In 2018, TLG IMMOBILIEN disposed of 22 properties in total and generated proceeds of EUR 25.0 m from the disposals. This means that the sale price was 18.6% higher than the carrying amount.

CONSISTENT AND SIGNIFICANT DISPOSALS

In 2018, 22 non-strategic properties in various asset classes with a total value of EUR 25.0 m were disposed of from the portfolio. Additionally, the company signed four new purchase agreements in 2018 that have not yet been executed and generated a cash flow of over EUR 20 m by disposing of a portfolio of 15 small retail properties in late 2018. They will be removed from the portfolio in the first quarter of 2019.

The successful disposal that the company was able to achieve after the reporting date in March 2019 by selling 29 small retail properties for around EUR 118 m as part of a package deal also reflects the current high level of demand. The transfer of benefits and encumbrances can be expected to take place in late September 2019. Of the 123 non-strategic properties with a total value of EUR 398.7 m by 31 December 2018, the disposal of 48 properties worth around EUR 142.9 m has already been secured through purchase agreements. Therefore, the non-strategic portfolio that has yet to be sold currently comprises 75 properties with a total value of around EUR 255.8 m.

See "Portfolio facts and figures"
→ *Details of the non-strategic portfolio p. 30*

	Number	Value	Annualised inplace rent	Margin
Disposal in 2018	22	EUR 25.0 m	EUR 2.1 m	18.6 %
Agreement signed yet disposal outstanding	48	EUR 142.9 m	EUR 10.1 m	8.5 %
Still to be sold	75	EUR 255.8 m	EUR 20.6 m	

DISPOSALS IN WIDESPREAD LOCATIONS

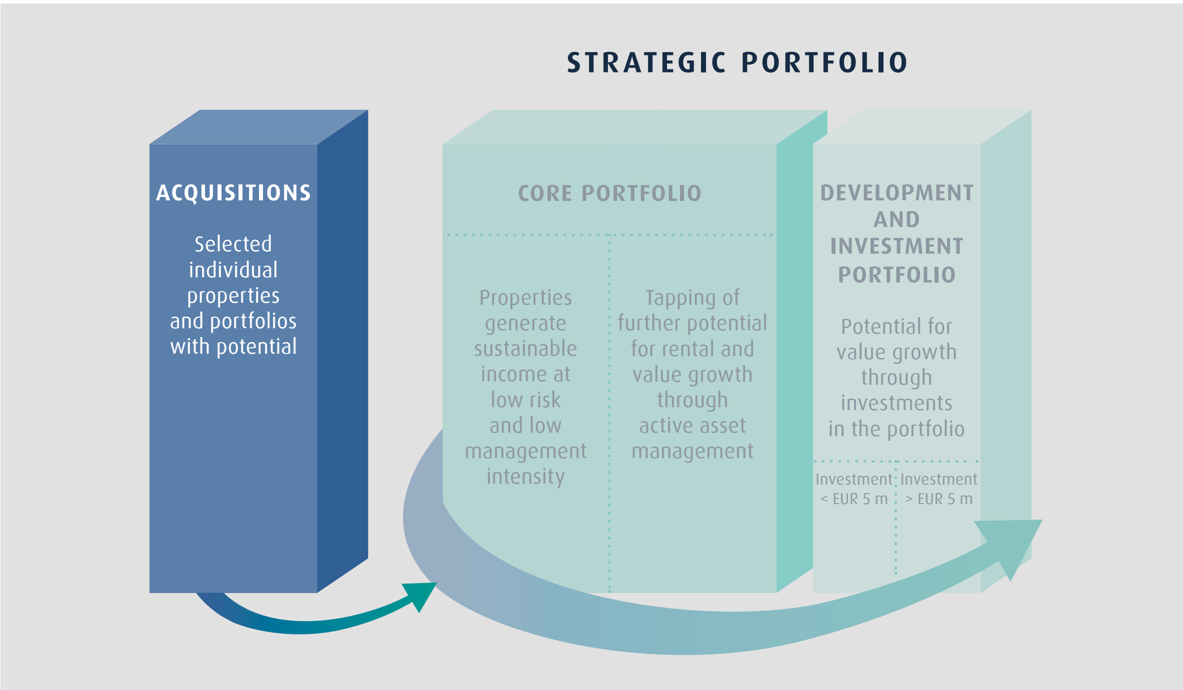

Netto market, Hauptstr., Breitungen

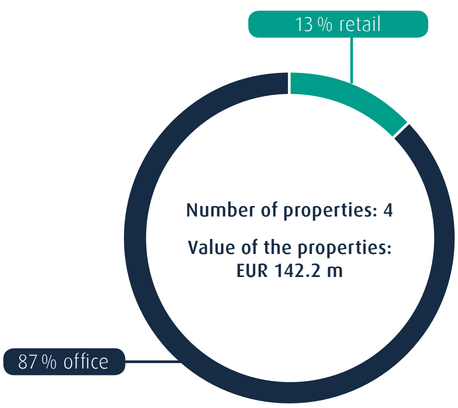

Diska market, Plauensche Str., Pausa


TyreXpert Autoservice, An der Saalebahn, Halle

EUR 399 m sales volume as at 31/12/2018
– EUR 143 m purchase agreements with no property handover
= EUR 256 m to be sold

VALUE GROWTH THROUGH ACQUISITIONS



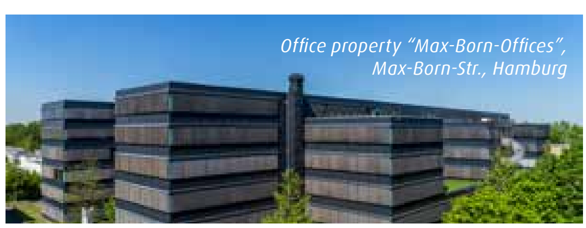


A acquisitions are more than merely a means of increasing the volume of our portfolio; they create potential for future increases in the total shareholder return. In the 2018 reporting year, TLG IMMOBILIEN added four properties to its portfolio: three office properties in Mannheim, Eschborn and Hamburg and the acquisition of a neighbourhood shopping centre in Rostock. These have increased the value of the portfolio by EUR 142.2 m. In light of the ongoing dynamism of the market, acquisitions of high-quality properties in core locations remain interesting to TLG IMMOBILIEN, in which regard promising properties or portfolios are analysed in terms of their future potential for value generation through investments or rental adjustments.

OPPORTUNITIES IN THE STRONGLY GROWING OFFICE MARKET IN HAMBURG

The “Max-Born-Offices” acquired by the company are occupied by a well-known anchor tenant and, with a vacancy rate of almost 15% as at the acquisition date, have additional potential for growth in rental income. The modern facilities promise interesting options in the growing office property market in Hamburg. Following the acquisition of the property in the third quarter of 2018, the company has started to reposition the brand and focus on the rental market. The “Max-Born-Offices” have been allocated to the core portfolio.

OFFICE PROPERTY “MAX-BORN-OFFICES”, HAMBURG	
Property value	EUR 58.6 m
Total area	22,851 sqm
Annualised in-place rent	EUR 3.3 m
In-place rental yield	5.6 %
EPRA Vacancy Rate	15.6 %
WALT	4.8 years
Transfer of benefits and encumbrances	01/07/2018



Office property “Max-Born-Offices”, Max-Born-Str., Hamburg

HIGH IN-PLACE RENTAL YIELD WITH A LOW VACANCY RATE

By acquiring an almost fully occupied office property in Eschborn, TLG IMMOBILIEN has secured a high-yield property on the doorstep of Frankfurt. This suitable addition to the portfolio in the Rhine-Main area reflects the intention of the company to generate higher rental income after the end of the relatively short WALT. The property is currently allocated to the core portfolio.

OFFICE PROPERTY, ESCHBORN	
Property value	EUR 15.4 m
Total area	7.833 sqm
Annualised in-place rent	EUR 1.0 m
In-place rental yield	6.3 %
EPRA Vacancy Rate	1.6 %
WALT	2.6 years
Transfer of benefits and encumbrances	01/03/2018

STRONG RENTAL POTENTIAL IN A LUCRATIVE LOCATION

With a vacancy rate beyond the 10% threshold, the property in the direct vicinity of Mannheim City Airport has attractive potential for future value generation. Its established location in the Rhine-Neckar Metropolitan Region will provide dynamic opportunities for growth in the coming years. "Theo & Luise" is part of the core portfolio.

OFFICE PROPERTY "THEO & LUISE", MANNHEIM	
Property value	EUR 50.2 m
Total area	25,369 sqm
Annualised in-place rent	EUR 3.2 m
In-place rental yield	6.4 %
EPRA Vacancy Rate	10.2 %
WALT	3.4 years
Transfer of benefits and encumbrances	01/03/2018

ACQUISITION OF A NEIGHBOURHOOD SHOPPING CENTRE IN ROSTOCK

TLG IMMOBILIEN added another retail property to its portfolio in the neighbourhood shopping centre "Klenow Tor" in Rostock, which it acquired in late 2017. The property was added to the portfolio in the first quarter of 2018 and has since generated an annualised in-place rent of EUR 1.6 m in the core portfolio.

RETAIL PROPERTY "KLENOW TOR", ROSTOCK	
Property value	EUR 18.0 m
Total area	16,294 sqm
Annualised in-place rent	EUR 1.6 m
In-place rental yield	8.7 %
EPRA Vacancy Rate	3.1 %
WALT	3.3 years
Transfer of benefits and encumbrances	01/01/2018

Neighbourhood shopping centre "Klenow Tor", Schiffbauerring, Rostock

OTHER SUCCESSFUL ACQUISITIONS IN Q1/2019

TLG IMMOBILIEN has already seized the opportunity to acquire a high-yield property in 2019. In February 2019, the company acquired "Westside Office" in Bonn, an office complex in an outstanding location with long-term rental agreements, for almost EUR 89 m, and will add it to its core portfolio when the property is handed over in mid 2019.

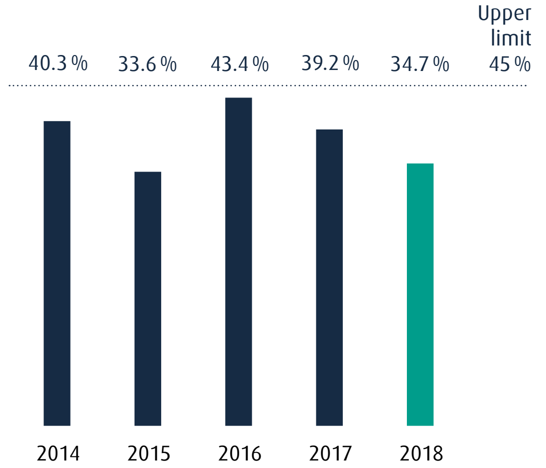
OFFICE PROPERTY "WESTSIDE OFFICE", BONN	
Total investment	EUR 88.8 m
Total area	33,614 sqm
Annualised in-place rent	EUR 5.3 m
In-place rental yield[1]	6.5 %
EPRA Vacancy Rate	0.0 %
WALT	6.0 years

Data as at: 28 February 2019 (signing)
[1] Based on purchase price of EUR 81.5 m

Office property "Westside Office", Am Propsthof, Bonn

FINANCIALLY SECURED GROWTH

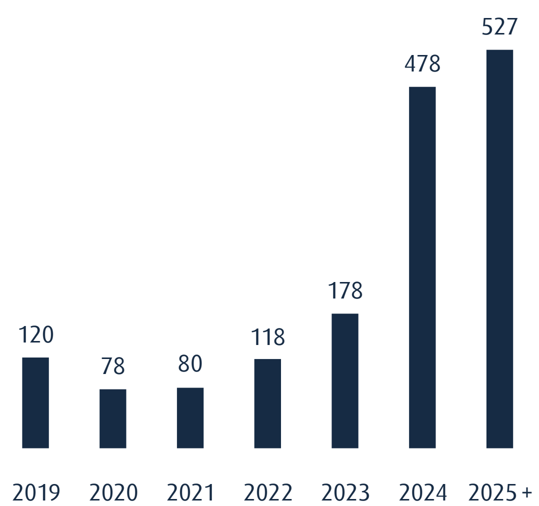
NET LTV PROVIDES LEEWAY



THE HIGH QUALITY OF THE STATEMENT OF FINANCIAL POSITION 2018 HAS INCREASED FURTHER

With a Net LTV of 34.7% (previous year 39.2%) far below the self-imposed and unchanged maximum limit of 45%, the statement of financial position allows for around EUR 400 m in financial leeway. The average costs of borrowed capital recognised in profit or loss remained at the low level of 1.83% (previous year 1.84%). For all of the liabilities, the interest rate is fixed over the term of each liability by fixed interest rate agreements or secured by interest rate hedges. As at the end of 2018, the loans had an average remaining term of 5.4 years and certain maturity dates are even in 2027. The rating of TLG IMMOBILIEN was confirmed by the rating agency Moody's with the investment grade Baa2 in November 2018.

MATURITY PROFILE AS AT 31 DECEMBER 2018
in EUR m



A DIVERSIFIED FINANCING STRUCTURE AT FAVOURABLE RATES

The investments planned for the coming years are secured by the expected high cash flows and the well-established access of the company to capital markets and banks. TLG IMMOBILIEN improved the quality of its statement of financial position and of its finance yet again in the 2018 reporting year. Following the comprehensive optimisation of finances as part of the takeover of WCM in the previous year, 2018 was characterised entirely by the strategic evolution and definition of the next stage of development. The acquisition of four properties with a value of EUR 142.2 m was financed by the liquidity of the company, including the successful capital increase in November 2017. The company has access to a highly diversified range of financing options for its planned total investments in excess of EUR 1 bn, primarily aimed to develop and convert existing portfolio properties. In addition to equity financing from operating cash flows and the new financial leeway of around EUR 400 m provided by the Net LTV that has decreased to around 35%, substantial cash inflows are to be expected from the disposal of non-strategic properties, representing financial firepower in excess of EUR 1 bn. Furthermore, TLG IMMOBILIEN will assess its established options in the equity and debt markets as well as its relations with financial institutions.

1.83%
average costs of borrowed capital recognised in profit or loss.

ANOTHER EPRA BPR GOLD AWARD FOR HIGH TRANSPARENCY

As in previous years, the EPRA BPR Gold Award was awarded for the high transparency of the financial reporting in the annual report for 2018. Additionally, the current sustainability report was awarded the sBPR Silver Award by the EPRA. The company aims to maintain this high standard in future. The awards will drive TLG IMMOBILIEN forwards and serve as an important basis for successful operational development.

FINANCIAL REPORTING

SUSTAINABILITY REPORTING

FACTS AND FIGURES: OVERALL PORTFOLIO

KEY PORTFOLIO PERFORMANCE INDICATORS

		31/12/2018						31/12/2017	
		Strategic portfolio							
		Office	Retail	Hotel	Total	Non-strategic portfolio	**Total**	Total	Change
Properties	number	62	217	7	286	123	**409**	426	17
Property value[1]	in EUR m	2,181.7	1,202,2	326,7	3,710,7	398.7	**4,109.4**	3,400.6	20.8%
Property value per sqm	in EUR/sqm	2,859	1,741	2,978	2,374	1,141	**2,148**	1,814	18.5%
Lettable area	in sqm	763,108	690,540	109,712	1,563,359	349,433	**1,912.793**	1,875.072	−37,720
EPRA Vacancy Rate	in %	4.1	2.1	3.3	3.3	3.2	**3.3**	3.6	0.3 pp
WALT	in years	5.5	5.5	11.6	6.0	6.7	**6.1**	6.3	0.2 years
Annualised in-place rent[2]	in EUR m	100.0	79.9	16.5	196.4	30.7	**227.2**	214,1	6.1%
Actual in-place rental yield	in EUR/sqm/month	11.67	10,08	13.18	11.07	7.68	**10.44**	10.05	3.9%
In-place rental yield	in %	4.6	6.6	5.0	5.3	7.7	**5.5**	6.3	0.8 pp
Average market rent	in EUR/sqm/month	13.79	9.82	16.13	12.20	7.07	**11.27**	10.05	12.1%
In-place rental yield on market rent	in %	5.7	6.8	6.4	6.1	7.4	**6.2**	6.6	0.4 pp

[1] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5.
[2] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

DEVELOPMENT OF PROPERTY VALUE BY ASSET CLASSES AS AT 31 DECEMBER 2018 VERSUS 31 DECEMBER 2016

	Strategic portfolio					
Property value (EUR m)	Office	Retail	Hotel	Total	Non-strategic portfolio	**Total**
Total as at 31/12/2016	988.1	752.5	272.0	2,012.6	229.0	**2,241.6**
Disposals from 01/01/2017–31/12/2018					95.3	**95.3**
31/12/2017 like-for-like 31/12/2018 (excluding disposals)	988.1	752.5	272.0	2,012.6	133.7	**2,146.3**
Like-for-like development	581.7 *58.9%*	139.4 *18.5%*	54.7 *20.1%*	775.8 *38.5%*	14.0 *10.5%*	**789.8** ***36.8%***
31/12/2018 like-for-like 31/12/2016 (excluding acquisitions)	1,569.8	891.9	326.7	2,788.4	147.7	**2,936.1**
Acquisitions from 01/01/2017–31/12/2018	611.9	310.3		922.2	251.0	**1,173.2**
Acquisitions in 2017 incl. WCM	487.7	292.3		780.0	251.0	**1,031.0**
Acquisitions in 2018	124.2	18.0		142.2		**142.2**
Total as at 31/12/2018	2,181.7	1,202.2	326.7	3,710.6	398.7	**4,109.3**
Development from 31/12/2016–31/12/2018	1,193.6 *120.8%*	449.7 *59.8%*	54.7 *20.1%*	1,698.0 *84.4%*	169.7 *74.1%*	**1,867.7** ***83.3%***

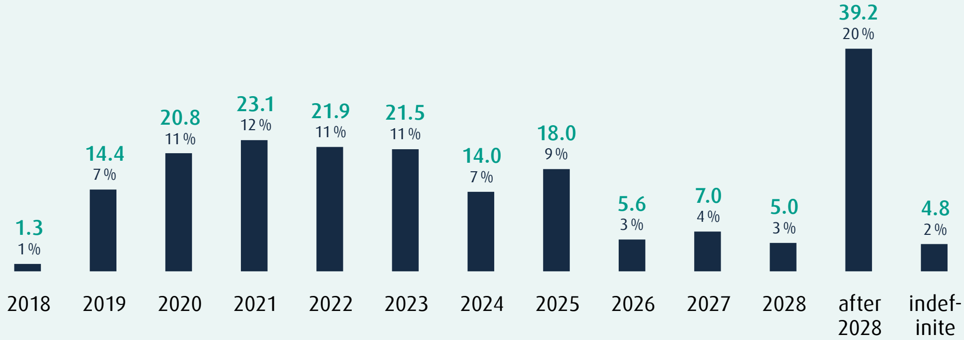
DEVELOPMENT OF ANNUALISED IN-PLACE RENT AS AT 31 DECEMBER 2018 VERSUS 31 DECEMBER 2016

	Strategic portfolio					
Property value (EUR m)	Office	Retail	Hotel	Total	Non-strategic portfolio	**Total**
Total as at 31/12/2016	61.4	56.1	16.1	133.7	21.6	**155.3**
Disposals from 01/01/2017–31/12/2018					8.7	**8.7**
31/12/2017 like-for-like 31/12/2018 (excluding disposals)	61.4	56.1	16.1	133.7	12.9	**146.6**
Like-for-like development	7.2 *11.8%*	2.2 *3.9%*	0.4 *2.4%*	9.8 *7.3%*	0.6 *4.5%*	**10.4** ***7.1%***
31/12/2018 like-for-like 31/12/2016 (excluding acquisitions)	68.6	58.3	16.5	143.5	13.5	**156.9**
Acquisitions from 01/01/2017–31/12/2018	31.4	21.6		53.0	17.2	**70.2**
Acquisitions in 2017 incl. WCM	23.9	20.0		43.9	17.2	**61.1**
Acquisitions in 2018	7.5	1.6		9.1		**9.1**
Total as at 31/12/2018	100.0	79.9	16.5	196.4	30.7	**227.2**
Development from 31/12/2016–31/12/2018	38.6 *62.9%*	23.7 *42.3%*	0.4 *2.4%*	62.8 *46.9%*	9.1 *42.2%*	**71.9** ***46.3%***

FACTS AND FIGURES: STRATEGIC PORTFOLIO

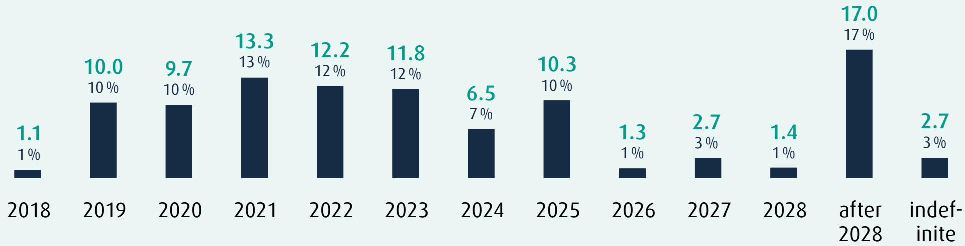
RENTAL AGREEMENT EXPIRATION BY YEAR • TOTAL

AS AT 31 DECEMBER 2018



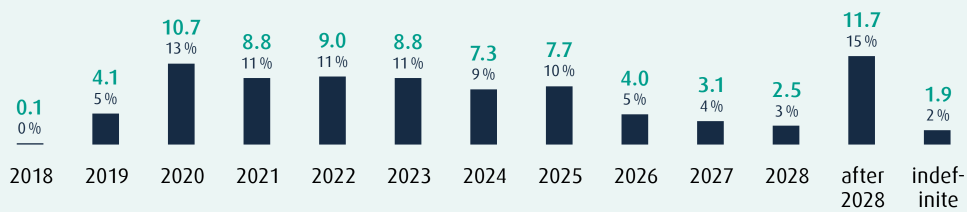
RENTAL AGREEMENT EXPIRATION BY YEAR • OFFICE ASSET CLASS

AS AT 31 DECEMBER 2018



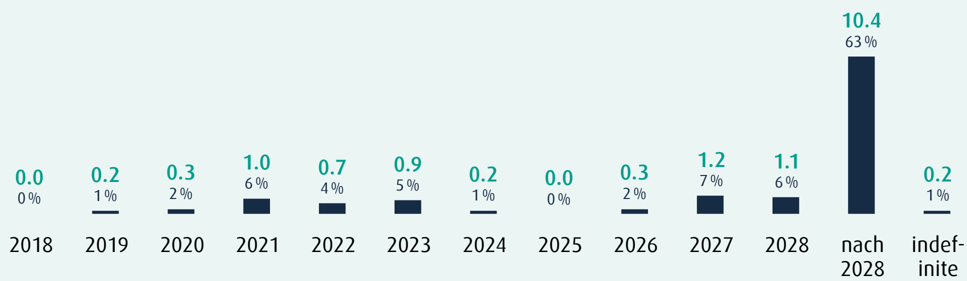
RENTAL AGREEMENT EXPIRATION BY YEAR • RETAIL ASSET CLASS

AS AT 31 DECEMBER 2018



RENTAL AGREEMENT EXPIRATION BY YEAR • HOTEL ASSET CLASS

AS AT 31 DECEMBER 2018

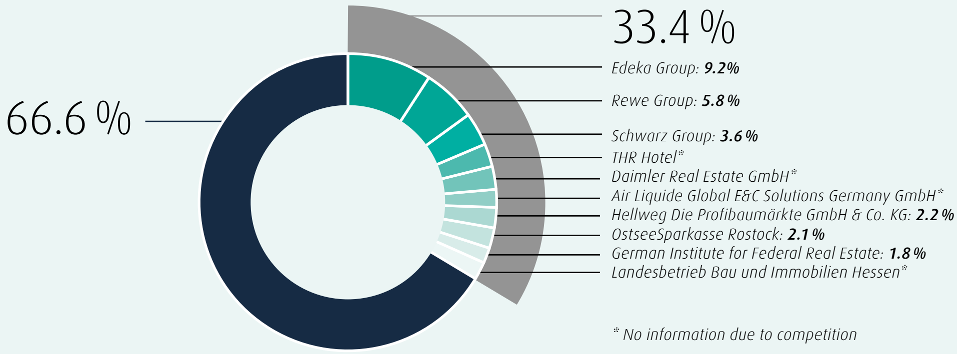


■ *Annualised in-place rent in EUR m* ■ *Share of annualised in-place rent in %*

FACTS AND FIGURES: STRATEGIC PORTFOLIO

TOP TEN TENANTS BY ANNUALISED IN-PLACE RENT

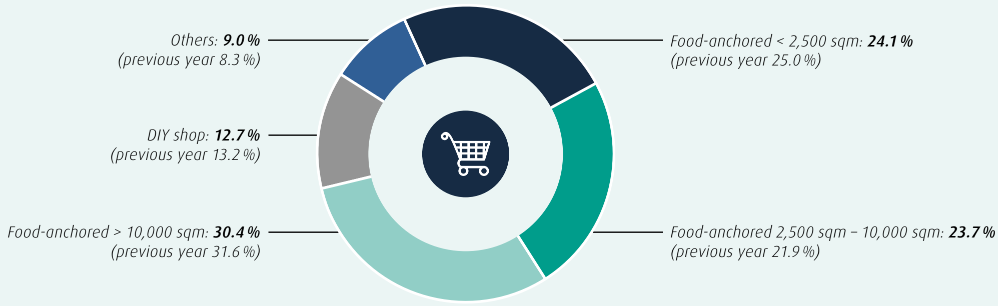
AS AT 31 DECEMBER 2018



* No information due to competition

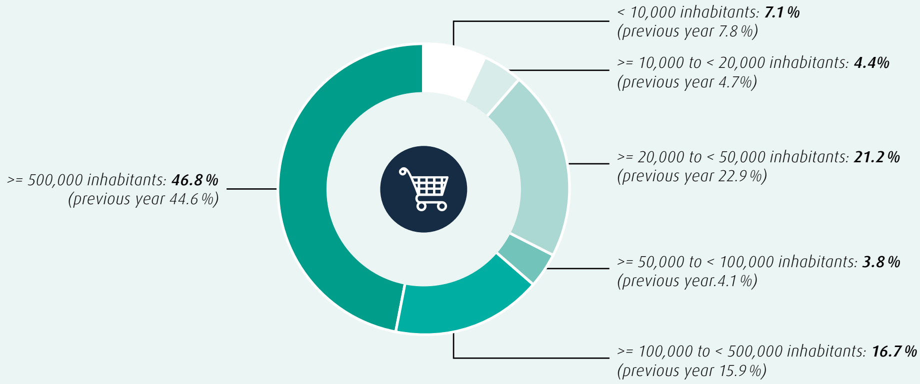
RETAIL ASSET CLASS BY SPECIFIC USE

PROPERTY VALUE IN % AS AT 31 DECEMBER 2018



RETAIL ASSET CLASS BY NUMBER OF INHABITANTS IN CITIES

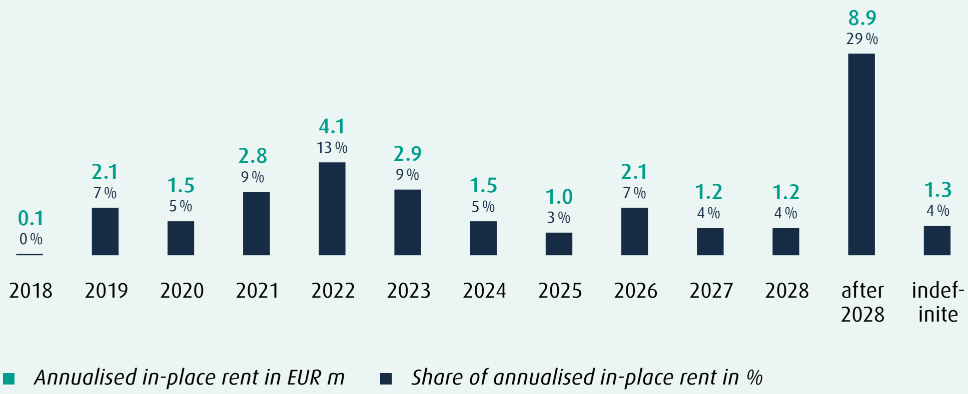
PROPERTY VALUE IN % AS AT 31 DECEMBER 2018



FACTS AND FIGURES: NON-STRATEGIC PORTFOLIO

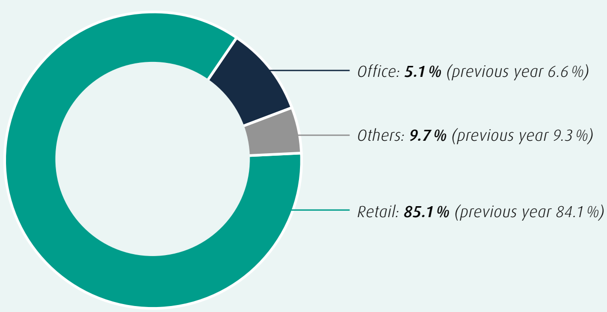
RENTAL AGREEMENT EXPIRATION BY YEAR

AS AT 31 DECEMBER 2018



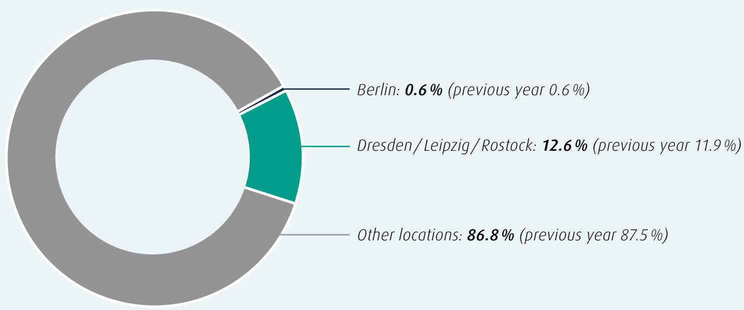
BREAKDOWN BY ASSET CLASS

PROPERTY VALUE IN % AS AT 31 DECEMBER 2018



BREAKDOWN BY LOCATION

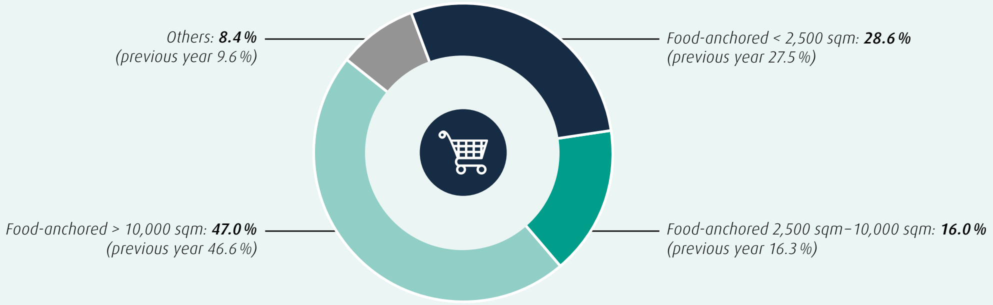
PROPERTY VALUE IN % AS AT 31 DECEMBER 2018



FACTS AND FIGURES: NON-STRATEGIC PORTFOLIO

RETAIL ASSET CLASS BY SPECIFIC USE

PROPERTY VALUE IN % AS AT 31 DECEMBER 2018



RETAIL ASSET CLASS BY NUMBER OF INHABITANTS IN CITIES

PROPERTY VALUE IN % AS AT 31 DECEMBER 2018

OVERVIEW OF PROPERTIES WORTH IN EXCESS OF EUR 10 M FROM THE PORTFOLIO OF THE TLG IMMOBILIEN GROUP

AS AT 31 DECEMBER 2018

OFFICE ASSET CLASS

Property name	Location	Acquired or development project	Plot size (sqm)	Year built	Year renovated	Property value (EUR m)	Annualised in-place rent (EUR m)	EPRA Vacancy rate (%)	WALT (years)
Office building, Alexanderstr.	Berlin		6,159	1969	1997	240.1	7.3	2.1	2.2
Spreestern, Englische Str.	Berlin		3,997	2004		132.7	*	0.0	*
Main Triangel, Zum Laurenburger Hof	Frankfurt/Main	10/2017	4,993	2006		131.0	5.2	5.8	15.9
Office building, Karl-Liebknecht-Str., Kleine Alexanderstr.	Berlin		8,000	1968	2007	121.2	3.5	0.1	2.2
astropark, Lyoner Str.	Frankfurt/Main	9/2017	22,371	1992		103.1	6.0	11.7	4.9
KulturBrauerei, Schönhauser Allee/ Corner of Sredzki- und Knaakstr.	Berlin		25,190	1867	2000	88.6	4.4	0.7	5.2
Campus Carré, Lyoner Str./Herriotstr./Rhonestr.	Frankfurt/ Main	12/2016	19,790	1993	2014	88.3	5.5	4.3	4.1
Erlenhöfe, Aroser Allee	Berlin	4/2016	15,369	1997	1993	78.8	3.6	1.1	3.7
Office building in Mertonviertel, Olof-Palme-Str.	Frankfurt/ Main	12/2016	16,742	2003	2013	75.8	*	0.0	*
Forum am Brühl, Richard-Wagner-Str./Brühl	Leipzig	9/2014	7,855	1996		70.1	3.5	0.2	3.3
Technisches Rathaus, Prager Str.	Leipzig	10/2016	11,092	1996	2009	62.0	*	0.6	*
Spreétage, Kaiserin-Augusta-Allee	Berlin	2/2014	4,332	1996		60.9	1.6	0.5	7.1
Max-Born-Offices, Bertrand-Russell-Str./ Max-Born-Str.	Hamburg	7/2018	11,464	2001		58.6	3.3	15.6	4.8
Office building, Dircksenstr.	Berlin	10/2017	3,060	1997		55.7	*	0.6	*
Office building, Kapweg	Berlin	10/2016	6,297	1997		53.6	2.6	11.8	5.7
Office building, Helfmann-Park	Eschborn	10/2017	9,682	2005		52.7	3.3	0.2	2.2
HAT – Hochhaus am Turm, Bleichstr.	Frankfurt/ Main	10/2017	2,266	1972	2001	51.5	1.8	25.8	4.9
Office building, Köpenicker Str./Bona-Peiser-Weg	Berlin	10/2014	2,746	2004		51.4	1.6	0.1	4.3
Theo & Luise, Theodor-Heuss-Anlage	Mannheim	3/2018	11,593	1994	2013	50.2	3.2	10.2	3.4
Office building, Am Vögenteich	Rostock		5,430	2000		49.7	*	0.0	*
Haus zur Berolina, Hausvogteiplatz	Berlin		2,353	1895	2003	40.7	0.9	0.0	3.5
Wilsdruffer Kubus, Postplatz/Wilsdruffer Str.	Dresden	Dev. 2008	5,888	2008		39.2	2.1	0.0	2.1
Office building, Frankfurter Str.	Neu-Isenburg	10/2017	17,492	1960	1998	37.8	2.5	14.3	2.4
Development site, Wriezener Karree	Berlin		14,221	1980	2003	33.9	0.0	100.0	–
Office building, Doberaner Str./Lohmühlenweg	Rostock	12/2014	8,587	1995		20.7	1.5	1.8	3.9
Office building, Graurheindorferstr.	Bonn	10/2017	5,516	2001		20.4	1.2	1.4	4.2
Office building, Münzstr./Max-Beer-Str.	Berlin		729	1900	2004	18.7	0.6	0.0	3.9
Office building, Kronenstr.	Berlin	4/2016	556	1996	2007	17.4	0.4	0.2	4.0
Office building, Am Schießhaus	Dresden	4/2016	2,399	1996	2014	17.3	0.9	5.0	6.8
Office building, Industriestr.	Stuttgart	4/2016	3,248	2000	2012	16.7	1.1	0.0	3.7
Office building, Zimmerstr.	Berlin		1,205	1900	2006	16.7	0.4	0.0	2.3
Office building, Kronenstr.	Berlin	4/2016	552	1996	2010	16.3	*	0.0	*
Lynx, Hauptstr.	Eschborn	3/2018	4,783	2001		15.4	1.0	1.6	2.6
Margonhaus, Budapester Str.	Dresden		2,890	1965	2001	14.3	0.7	8.4	5.3
Pirnaisches Tor, Grunaer Str./ St. Petersburger-Str.	Dresden		14,600	1971	1999	13.7	*	0.0	*
Office building, Ferdinandplatz	Dresden	3/2015	1,284	1994		13.7	0.8	8.9	2.3
Office building, Hermann-Drechsler-Str.	Gera		48,466	1985	2004	13.4	1.7	0.5	3.8
CCW City-Center Warnowallee, Warnowallee	Rostock		7,354	1996		12.7	1.1	0.0	5.6
Office building, Hugenottenallee	Neu-Isenburg	10/2017	4,187	2002		10.9	0.8	9.3	2.1

* No information due to competition

Total lettable area (sqm)	Parking spaces (number)	Anchor tenants	Portfolio cluster
42,494	9	BIM Berliner Immobilienmanagement GmbH, Visual Meta GmbH, Caroobi GmbH, 1&1 Internet SE	Development & investment portfolio
17,815	156	Daimler Real Estate GmbH	Core portfolio
28,405	366	Landesbetrieb Bau und Immobilien Hessen, Kombiverkehr Deutsche Gesellschaft, Global Health Resource GmbH	Core portfolio
24,567	60	Institute for Federal Real Estate, FlixMobility GmbH	Development & investment portfolio
38,777	650	BS Payone GmbH, Fujitsu Technology Solutions GmbH, ZVEI Zentralverband Elektrotechnik und Elektronikindustrie e. V.	Core portfolio
30,577	247	Greater Union Filmpalast GmbH, Quandoo GmbH, Rewe Group (Rewe)	Development & investment portfolio
31,544	587	Hochtief Solutions AG, Techniker Krankenkasse, Steigenberger Hotels AG	Core portfolio
36,648	410	Vivantes Netzwerk für Gesundheit GmbH, 1&1 Versatel Deutschland GmbH, Vitanas GmbH & Co. KGaA	Core portfolio
26,575	462	Air Liquide Global E&C Solutions Germany GmbH	Core portfolio
26,374	225	Deutsche Bahn AG, apoBank Deutsche Apotheker- und Ärztebank eG, SBK Siemens Betriebskrankenkasse	Core portfolio
45,016	315	City of Leipzig	Core portfolio
14,727	145	VHV Allgemeine Versicherung AG, Media Broadcast GmbH	Core portfolio
22,851	500	Reemtsma Cigarettenfabriken GmbH, WWK Lebensversicherung a.G.	Core portfolio
9,642	48	PSI Software AG	Core portfolio
18,117	183	Vermögensverw.- u. Treuhand-Gesellschaft des Deutschen Gewerkschaftsbundes mbH, district office of Berlin-Mitte, hello.de Berlin GmbH	Core portfolio
18,281	496	Randstad Deutschland GmbH & Co. KG, Accovion GmbH, Waters GmbH	Core portfolio
10,588	121	General Electric Deutschland, Curzon Advisers GmbH, MMZ Architekten GmbH	Core portfolio
11,996	29	Vereinte Dienstleistungsgewerkschaft, Deutsche Bahn AG, Codecentric AG	Core portfolio
25,369	401	GMG Generalmietgesellschaft mbH, Camelot Management Consultants AG, Euromaster GmbH	Core portfolio
19,470	26	OstseeSparkasse Rostock	Core portfolio
7,897	23	medneo GmbH, USU GmbH, Will Media GmbH	Core portfolio
10,537	227	SAP Deutschland SE & Co. KG, Rathgeber Gaststätten GmbH, Dresdner Verkehrsbetriebe AG	Core portfolio
18,351	597	Du Pont de Nemours (Deutschland) GmbH, Toray International Europe GmbH, ADP Employer Services GmbH	Development & investment portfolio
8,448	650		Development & investment portfolio
15,969	216	Betrieb für Bau und Liegenschaften MV, Pädagogisches Kolleg Rostock GmbH, VIACTIV Krankenkasse Verwaltung Region Nord	Core portfolio
7,723	125	VRT Linzbach, Löcherbach & Partner, VR NetWorld, Secretariat of the Standing Conference	Core portfolio
2,468	0	Catenion GmbH, MCO Conversestore GmbH, Freitag lab. Germany GmbH	Core portfolio
2,856	9	Institute for Federal Real Estate, Adecco Personaldienstleistungen GmbH, gsub mbH – Gesellschaft für soziale Unternehmensberatung	Core portfolio
9,139	50	Medizinischer Dienst der Krankenversicherung im Freistaat Sachsen e.V., Leonhardt, Andrä und Partner Beratende Ingenieure, RA Wolff & Rapp	Core portfolio
8,103	83	Bauknecht Hausgeräte GmbH, eXXcellent Solutions consulting & software GmbH, Deutscher Sparkassen Verlag GmbH	Core portfolio
2,809	6	acht+Baumanagement Immobilienberatung GmbH, Berlin Fashion Group GmbH, ARTAGOS Medien-Design-Produktions GmbH	Core portfolio
2,555	18	gsub mbH	Core portfolio
7,833	144	Deutsche Gesellschaft für Internationale Zusammenarbeit, Noratis AG, red lemon media GmbH	Core portfolio
6,663	102	Barmer GEK Hauptverwaltung, OT-Dresden GmbH Steuerberatungsgesellschaft	Core portfolio
17,973	260	Landeshauptstadt Dresden	Development & investment portfolio
7,170	80	Landeshauptstadt Dresden, HUK – Coburg Haftpflicht-Unterstützungskasse, SGF Santander Global Facilities S.L.	Core portfolio
30,062	158	Free State of Thuringia, Institute for Federal Real Estate	Core portfolio
6,306	119	OstseeSparkasse Rostock, Rewe Group (Penny), Neue ohne Barrieren gGmbH	Core portfolio
5,512	128	Tinet GmbH, W. Markgraf GmbH & Co. KG, Rigaku Europe SE	Core portfolio

ONLINE PRESENTATION OF OUR PROPERTIES WITH A PORTFOLIO VALUE IN EXCESS OF EUR 10 M

www.tlg.eu > Portfolio > Overview

RETAIL ASSET CLASS

Property name	Location	Acquired or develop-ment project	Plot size (sqm)	Year built	Year reno-vated	Property value (EUR m)	Annualised in-place rent (EUR m)	EPRA Vacancy rate (%)	WALT (years)
Bahnhofs-Passage Bernau, Börnicker Chaussee	Bernau	7/2015	56,523	1996	2006	56.3	3.9	6.5	3.5
Gäubodenpark, Hebbelstr.	Straubing	10/2017	52,986	1976/ 1990	2000	53.8	3.7	5.3	3.5
Neighbourhood shopping centre, Dr.-Adolf-Schneider-Str.	Ellwangen	10/2017	68,958	1992		51.6	3.3	1.1	4.3
Neighbourhood shopping centre, Südstadtring	Halle	10/2017	50,864	1996		42.6	3.2	6.1	4.5
Special market centre, Adlergestell, Otto-Franke-Str.	Berlin	2/2015	43,639	2006		40.3	3.2	0.0	7.1
Handelscentrum Strausberg, Herrenseeallee	Strausberg	7/2015	95,177	1997	2007	37.0	3.0	1.3	3.4
Marktplatz Friedrichshagen**, Bölschestr.	Berlin	Dev. 2013	15,408	2013		33.7	1.8	0.0	9.9
Hellweg Baumarkt, An der Ostbahn/ Str. der Pariser Kommune	Berlin	Dev. 2006	29,238	2006		32.9	*	0.0	*
Südstadtcenter**, Nobelstr., Majakowskistr.	Rostock	8/2015	17,132	1993	2000	31.2	2.0	1.8	4.7
Quartier17, Ossenreyerstr., Badenstr., Kleinschmiedstr.	Stralsund	Dev. 2013	4,751	2013		30.0	2.0	1.8	7.3
OBI-Baumarkt, Heininger Str.	Göppingen	10/2017	36,327	2012		24.8	*	0.0	*
Burgwall Center, Lübsche Str.	Wismar	9/2015	19,342	1993		22.7	1.6	1.7	4.7
Neighbourhood shopping centre, Helene-Weigel-Platz	Berlin	Dev. 2011	12,596	2011		21.1	1.0	0.0	3.6
Sachsen Forum**, Merianplatz	Dresden	11/2016	14,462	1996		24.6	1.7	8.9	3.2
Hellweg Baumarkt, Ellen-Epstein-Str.	Berlin	Dev. 2008	19,392	2008		20.4	*	0.0	*
Hellweg Baumarkt, Salvador-Allende-Str.	Berlin	Dev. 2008	48,811	2008		19.5	*	0.0	*
Edeka market, Annenstr.	Berlin		4,588	1976		19.2	*	0.0	*
Rewe market, Revaler Str./hinter Marchlewskistr.	Berlin		6,472	1981		19.2	*	0.0	*
Prohlis Centrum**, Jacob-Winter Platz, Prohliser Allee	Dresden	10/2017	23,239	2001		25.0	1.6	3.3	4.7
Neighbourhood shopping centre, Calbesche Str.	Schönebeck	10/2017	84,205	1994		20.0	1.4	17.3	5.1
Neighbourhood shopping centre, Siebenhauser Str.	Wolfen	10/2017	74,820	1995		19.7	1.3	0.0	11.3
Neighbourhood shopping centre, Potsdamer Str.	Ludwigsfelde	10/2017	10,340	1997		19.5	1.1	9.0	5.5
Neighbourhood shopping centre, Karl-Marx-Allee	Jena-Lobeda	10/2017	18,198	1995		19.1	1.4	7.4	3.8
Kino Cubix, Rathausstr.	Berlin	Dev. 2001	2,946	2001		18.8	1.2	0,0	3.4
Neighbourhood shopping centre, Hoymer Str.	Aschersleben	10/2017	36,455	1993	2017	18.6	1.6	1.8	5.6
Neighbourhood shopping centre, Waldenburger Str.	Glauchau	10/2017	47,878	1992	2017	18.1	1.2	7.9	7.4
Neighbourhood shopping centre Klenow Tor, Schiffbauerring/Albrecht-Tischbein-Str.	Rostock	1/2018	14,056	1994/ 1998		18.0	1.6	3.1	3.3
Neighbourhood shopping centre, Marzahner Promenade	Berlin	Dev. 2005	11,732	2005		15.2	0.7	1.7	8.6
Hofbräuhaus, Karl-Liebknecht-Str.	Berlin		2,631	1968	2011	15.0	*	0.0	*
Neighbourhood shopping centre, Seegraben	Aschersleben	10/2017	21,732	1994		14.9	1.0	0.0	11.3
Neighbourhood shopping centre, Bertholt-Brecht-Str.	Rostock		15,139	1972	2004/2017	13.9	0.8	4.1	9.7
Commercial building, Prager Str.	Dresden	Dev. 2006	1,462	2006		13.6	0.7	0.0	6.7
Neighbourhood shopping centre, Asbacher Str.	Linz am Rhein	12/2017	20,783	1959	2004	13.6	1.0	2.7	2.2
Lidl market, Leipziger Str.	Berlin		2,700	1978	2008	12.9	*	0.0	*
Special market centre, Kronacher Str.	Unterwellen-born	11/2017	42,454	1991/ 1992		12.7	*	0.0	*
OBI-Baumarkt, In der Trift	Olpe	10/2017	24,456	2014		11.6	*	0.0	*
Neighbourhood shopping centre, Greifswalder Str./Storkower Str.	Berlin	Dev. 2009	8,332	2009		11.0	0.6	0.0	4.3
La Vita, Bärensteiner Str., Schandauer Str.	Dresden	Dev. 2011	8,097	2011		10.7	0.6	5.0	6.6

* No information due to competition ** Combination of two-part building

HOTEL ASSET CLASS

Property name	Location	Acquired or develop-ment project	Plot size (sqm)	Year built	Year reno-vated	Property value (EUR m)	Annualised in-place rent (EUR m)	EPRA Vacancy rate (%)	WALT (years)
Die Welle, Karl-Liebknecht-Str.	Berlin	Dev. 2011	4,772	2011		130.8	6.2	4.3	9.9
Hotel de Saxe, Neumarkt	Dresden		2,009	2006		53.4	2.6	0.0	15.8
Zwinger Forum, Postplatz/Schweriner Str.	Dresden	Dev. 2013	3,848	2013		43.8	2.2	1.9	13.0
Brühl Arkade, Am Hallischen Tor/Brühl/ Richard-Wagner-Str.	Leipzig	4/2016	3,596	1997		33.3	1.9	4.4	7.3
InterCity Hotel, Wiener Platz	Dresden	2/2016	3,309	2008		26.8	1.6	9.0	8.2
Novum Winters Hotel, Zimmerstr.	Berlin		2,336	1950	2012	20.8	*	0.0	*
Motel One, Schröderplatz/Schröderstr./ Am Vögenteich	Rostock	partial dev. 2013	2,468	2013		17.8	0.9	0.0	16.8

* No information due to competition

Total lettable area (sqm)	Parking spaces (number)	Anchor tenants	Portfolio cluster
27,211	884	Edeka Group (Edeka), Dirk Rossmann GmbH, Medimax Zentrale Electronic SE, Dänisches Bettenlager GmbH & Co. KG	Development & investment portfolio
35,105	1,000	Schwarz Group (Kaufland), EXTRA Games Entertainment GmbH, Reha Zentrum Straubing GmbH & Co. K	Development & investment portfolio
32,049	872	Schwarz Group (Kaufland), Marktkauf Autonom BM, Adler Modemärkte AG, dm-drogerie markt GmbH & Co.KG	Non-strategic portfolio
30,678	1,261	Schwarz Group (Kaufland), Medimax, Zentrale Electronic SE, Deichmann SE, dm-drogerie markt GmbH & Co.KG	Core portfolio
28,350	542	OBI, Poco Einrichtungsmärkte GmbH, McFit GmbH	Development & investment portfolio
23,681	1,400	Edeka Group (Edeka), C&A Mode GmbH & Co. KG, Medimax Zentrale Electronic SE, Dirk Rossmann GmbH	Core portfolio
12,923	139	Edeka Group (Edeka), gemeinnützige ProCurand GmbH	Development & investment portfolio
17,883	310	Hellweg Die Profibaumärkte GmbH & Co. KG	Development & investment portfolio
14,063	292	Rewe Group (Rewe, Penny), Dirk Rossmann GmbH, OstseeSparkasse Rostock	Core portfolio
10,872	182	dm-drogerie markt GmbH & Co.KG, Edeka Group (Edeka), Contipark Parkgaragengesellschaft mbH	Non-strategic portfolio
13,481	400	OBI	Core portfolio
11,793	280	Rewe Group (Rewe), Norma Lebensmittelhandels Stiftung & Co.KG, Deichmann SE, Dirk Rossmann GmbH	Core portfolio
5,978	158	Rewe Group (Rewe), Zahnklinik Ost GmbH, Dirk Rossmann GmbH	Development & investment portfolio
14,649	285	Konsum Dresden eG, Dirk Rossmann GmbH, Rewe Group (Penny)	Core portfolio
9,320	270	Hellweg Die Profibaumärkte GmbH & Co. KG	Development & investment portfolio
13,950	477	Hellweg Die Profibaumärkte GmbH & Co. KG	Development & investment portfolio
2,539	33	Edeka Group (Edeka)	Development & investment portfolio
3,978	14	Rewe Group (Rewe)	Development & investment portfolio
12,424	350	Edeka Group (Edeka), Landeshauptstadt Dresden, Ostsächsische Sparkasse Dresden, Dirk Rossmann GmbH	Core portfolio
23,999	814	Schwarz Group (Kaufland), Hammer Fachmärkte für Heimausstattung Ost GmbH	Non-strategic portfolio
16,886	300	Edeka Group (Edeka)	Non-strategic portfolio
12,611	366	Schwarz Group (Kaufland), AWG Allgemeine Warenvertriebs GmbH, Deichmann SE	Non-strategic portfolio
12,226	502	Schwarz Group (Kaufland), KiK Textilien und Non-Food GmbH	Core portfolio
10,842	0	Greater Union Filmpalast GmbH	Development & investment portfolio
14,757	846	Toom Baumarkt GmbH, Schwarz Group (Kaufland), AWG Allgemeine Warenvertriebs GmbH, Pfennigpfeiffer Handelsgesellschaft	Non-strategic portfolio
12,969	519	Schwarz Group (Kaufland), Medimax Zentrale Electronic SE, AWG Allgemeine Warenvertriebs GmbH, Dänisches Bettenlager GmbH & Co. KG	Core portfolio
16,294	364	Hansestadt Rostock, AWO-Sozialdienst Rostock gemeinnützige GmbH, Rewe Group (Penny)	Core portfolio
4,676	250	Edeka Group (Netto Marken-Discount), Pfennigpfeiffer Handelsgesellschaft mbH, Krafttraining Berlin GbR Kieser Training	Development & investment portfolio
5,862	0	Bayerisches Wirtshaus Berlin GmbH	Development & investment portfolio
9,071	497	Edeka Group (Edeka)	Non-strategic portfolio
6,770	160	Edeka Group (Edeka), Unternehmensgruppe Aldi Nord, Dirk Rossmann GmbH	Core portfolio
2,690	0	Burgerlich GmbH, Targobank AG, Taschenkaufhaus GmbH	Core portfolio
10,794	279	Edeka Group (Edeka), Unternehmensgruppe Aldi Nord, Dirk Rossmann GmbH	Development & investment portfolio
4,718	0	Schwarz Group (Lidl)	Development & investment portfolio
9,384	440	Schwarz Group (Kaufland)	Core portfolio
8,922	253	OBI	Core portfolio
3,801	120	Edeka Group (Edeka), Shoe4You GmbH & Co. KG, Takko Holding GmbH	Development & investment portfolio
4,992	112	Edeka Group (Edeka)	Core portfolio

Total lettable area (sqm)	Parking spaces (number)	Anchor tenants	Portfolio cluster
33,942	106	THR Hotel (H4 Hotel, H2 Hotel)	Core portfolio
13,487	0	Steigenberger Hotels	Core portfolio
14,646	165	Motel One	Core portfolio
21,436	169	Marriott Hotel	Core portfolio
12,440	0	IntercityHotel	Core portfolio
7,158	18	Novum Hotels Berlin	Core portfolio
6,603	61	Motel One	Core portfolio

RETAIL IN DETAIL

www.tlg.eu > Portfolio > Overview

MICHAEL ZAHN,
CHAIRPERSON OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

TLG IMMOBILIEN AG performed very well in the 2018 financial year and improved its key performance indicators yet again. We successfully carried out acquisitions and completed the integration of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (WCM AG).

A TRUSTING PARTNERSHIP WITH THE MANAGEMENT BOARD

In the 2018 financial year, the Supervisory Board fulfilled the responsibilities 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.

As in previous years, 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 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

In the 2018 financial year, the Supervisory Board convened twelve times – including seven times by way of a teleconference – to discuss current business developments, important transactions and transactions requiring 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 every meeting in the reporting year.

In the 2018 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 and integration of WCM AG, the Alexanderplatz development project, property acquisitions and the appointment of new members to the Management Board.

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.

The first resolution by circulation on **5 January 2018** extended the contracts of the members of the Management Board Peter Finkbeiner and Niclas Karoff. On **25 January 2018**, a resolution was passed by circulation to conclude a consultancy contract with Ms Stheeman. Additionally, a resolution was passed by circulation on **7 February 2018** to instruct the Management Board to have Mr Stefan E. Kowski appointed as a member of the Supervisory Board by court order.

In the first meeting held as a teleconference in the 2018 financial year on **16 February 2018**, the Supervisory Board addressed the development project on Alexanderplatz and revised the rules of procedure of the Management Board with regard to the authority of the Management Board in development projects.

On **28 February 2018**, a resolution was passed by circulation to have Mr Sascha Hettrich appointed as a member of the Supervisory Board by court order at the request of the Management Board.

In the meeting held on **16 March 2018**, an acquisition project and the development project on Alexanderplatz were discussed.

In the meeting held on **21 March 2018**, the annual and consolidated financial statements for 2017, the appropriation of net retained profits, the recommended auditor for 2018, the agenda and the proposals of the Supervisory Board for the 2018 general meeting were discussed and approved. Furthermore, the conclusion of control agreements with various subsidiaries of TLG IMMOBILIEN AG was approved.

In the meeting of the Supervisory Board on **23 April 2018**, Mr Hettrich was appointed as a member and the new chairperson of the project development committee and Mr Zahn was appointed to the audit committee. Furthermore, the Alexanderplatz development project was discussed and the short and long-term elements (STI and LTI) of the remuneration of the Management Board were addressed.

The meeting of the Supervisory Board on **25 May 2018** focused on the future strategy of TLG IMMOBILIEN AG.

A resolution concerning an acquisition was passed by circulation on **29 May 2018**.

The resolution passed by circulation on **19 June 2018** concerned the appointment of new members to the Management Board.

An acquisition project was discussed in the meeting of the Supervisory Board on **25 June 2018**.

In the meetings of the Supervisory Board on **25 June, 17 July, 9 August, 13 August, 7 September** and **13 September 2018**, the members discussed matters of the Management Board, especially in connection with the appointment of new members to the Management Board.

In the meeting held by circulation on **26 September 2018**, the assignment of the authorities of the Management Board in the rules of procedure for the Management Board was revised.

In the final Supervisory Board meeting of the year on **8 November 2018**, the members discussed the strategy of the company with the new members of the Management Board. Additionally, the schedule for 2019 was agreed, the declaration of compliance of TLG IMMOBILIEN AG was approved and a profile of skills and expertise for the Supervisory Board was adopted.

The last four **resolutions passed by circulation** in 2018 on 20 and 21 December 2018 concerned the appointment of new members to the presidential and nomination committee and audit committee, a disposal from the portfolio, a property acquisition and a project development measure.

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 three times in the reporting year (on 3 January, 16 March and 19 June 2018), including once as a teleconference and twice by circulation. The meetings focused primarily on matters of the Management Board (remuneration issues and revision of the contracts of the members of the Management Board) and matters of the Supervisory Board (proposal to fill two positions on the Supervisory Board).

In the reporting year, the **audit committee** met four times (on 21 March, 14 May, 9 August and 8 November 2018) including once as a teleconference, and twice passed resolutions by circulation (on 12 January and 24 May 2018). In particular, the matters on the agenda included the preliminary audit of the annual financial statements, the consolidated financial statements and the interim reports of TLG IMMOBILIEN AG as well as the pro forma financial information from WCM AG in connection with the prospectus on the control agreement. It provided the Supervisory Board with a recommendation on which auditor to appoint for the 2018 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 certain subsidiaries as well as an audit of TLG IMMOBILIEN AG by the German Financial Reporting Enforcement Panel. The members of the audit committee have particular knowledge and experience in the application of GAAP and internal control processes.

The **market and acquisitions committee** did not meet in the 2018 financial year.

The **project development committee** met seven times in total (on 30 January, 14 January, 2 May, 23 May, 4 July, 11 September and 2 November 2018), including once in the form of a teleconference. The meeting 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 2018, including management reports, prepared by the Management Board were examined by the auditor appointed by the general meeting on 25 May 2018 and engaged by the Supervisory Board, the Berlin branch 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 immediately. The auditor attended the audit committee meeting held on 20 March 2019 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 20 March 2019. 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 2018 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 0.91 per share (based on 103.4 m shares as at 31 December 2018) to the agenda of the general meeting in 2019.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Ms Elisabeth Talma Stheeman resigned from her position on the Supervisory Board with effect from 29 January 2018. Mr Stefan E. Kowski was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 21 February 2018 until the end of the general meeting in 2018 in which Mr Kowski was elected as a member of the Supervisory Board. Mr Kowski 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 Frank D. Masuhr resigned from the Supervisory Board with effect from 31 January 2018. On 5 March 2018, Mr Sascha Hettrich was appointed to the Supervisory Board by the local court of Berlin Charlottenburg until the end of the general meeting in 2018 in which he was elected as a member of the Supervisory Board. Mr Hettrich 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.

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 order of the local court of Berlin-Charlottenburg from 15 February 2019 until the end of the general meeting in 2019.

Mr Jürgen Overath (COO) and Mr Gerald Klinck (CFO) were appointed as members of the Management Board of TLG IMMOBILIEN AG with effect from 17 September 2018. The members of the Management Board Peter Finkbeiner and Niclas Karoff left TLG IMMOBILIEN AG with effect from 31 October 2018.

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 AG and all Group companies for their commitment and the constructive work we have done this year.

Berlin, March 2019
For the Supervisory Board

Michael Zahn
Chairperson of the Supervisory Board

TLG IMMOBILIEN SHARES

The DAX fell by more than 18% in the 2018 financial year, essentially due to growing fears of a recession.

After falling by over 6% in the first quarter due to factors including the considerable worsening of leading indicators in the Eurozone and the introduction of US import tariffs on steel and aluminium, the leading index recovered slightly in the second quarter and remained almost entirely stable in the third quarter before falling by another approx. 14% in the final quarter. Market participants attributed the negative performance of the DAX to the weak ifo index, the decision of the European Central Bank to halt its bond-buying programme, the slowing growth in China, the political uncertainty surrounding Brexit and the trade war between the USA and China.

Over the course of the year, the DAX fell by a total of 18.1% compared to its opening price on 2 January 2018. The SDAX declined by 20.0% in the same period. The prices of German property shares remained stable in 2018 whereas the prices of European property shares suffered losses. The FTSE EPRA/NAREIT Germany Index increased by 1.0%, whereas the FTSE EPRA/NAREIT Europe Index declined by 12.0%.

TLG IMMOBILIEN shares experienced a stable start to 2018 before performing positively in the second and especially the final quarter. On 17 December 2018, the shares reached their highest value on XETRA at EUR 26.08. The performance for the year was 9.4% relative to the opening price of EUR 22.14 at the start of the year.

TLG IMMOBILIEN share data

ISIN/WKN	DE000A12B8Z4/A12B8Z
Ticker symbol	TLG
Share capital in EUR	103,384,729,00
Number of shares (no-par value bearer shares) as at 31/12/2018	103,384,729
Indices (selection)	SDAX, EPRA/NAREIT Global Index, EPRA/NAREIT Europe Index, EPRA/NAREIT Germany Index
Sector/sub-sector	Real estate
Market segment	Regulated market (Prime Standard)
Designated sponsors	Commerzbank AG, ODDO SEYDLER BANK AG
Reporting period high on 17/12/2018 (Xetra) in EUR	26.08
Reporting period low on 06/02/2018 (Xetra) in EUR	21.02
Closing price on 31/12/2018 (Xetra) in EUR	24.22
Market capitalisation in EUR m	2,504.0

GENERAL MEETING

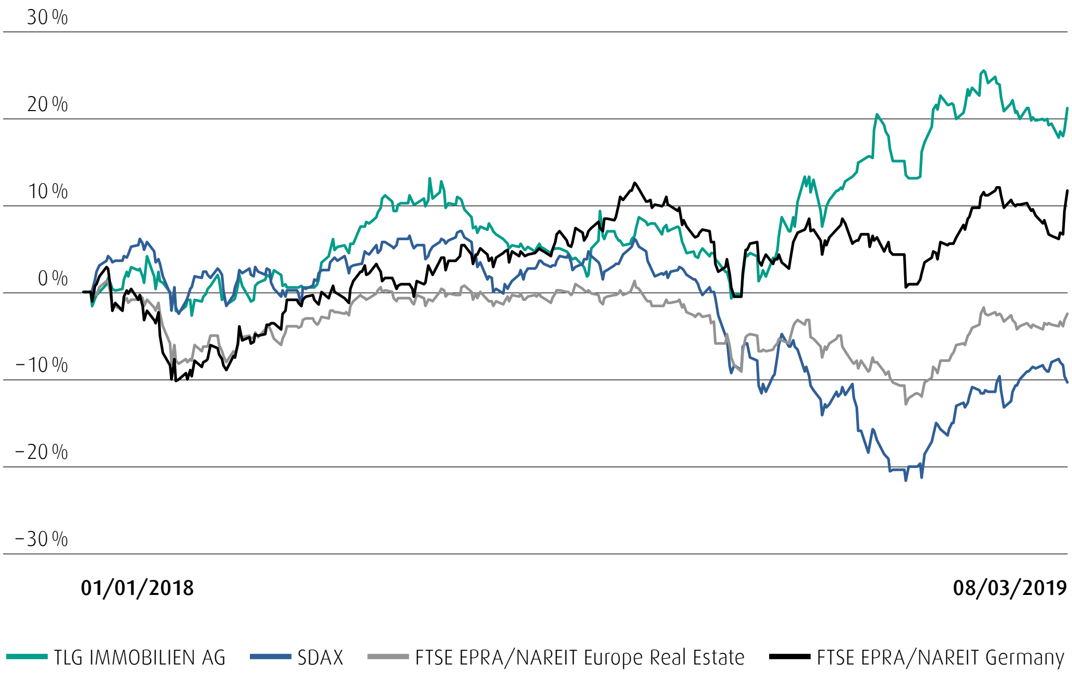
ANNUAL GENERAL MEETING

The annual general meeting of TLG IMMOBILIEN AG was held in the conference centre at Ludwig Erhard Haus, Fasanenstrasse 85, 10623 Berlin, on 25 May 2018.

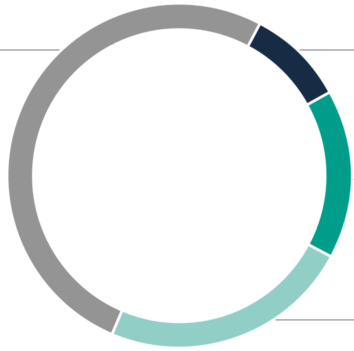
Overall, approximately 79% of the total share capital of the company was represented. The proposals of the management on all matters of the agenda were passed by a large majority. In line with the resolution, a dividend of EUR 0.82 per share was paid on the third working day following the general meeting, i.e. 30 May 2018, in accordance with the applicable version of the German Stock Corporation Act (AktG) from 1 January 2017 onwards.

The 2019 general meeting is likely to be held in Berlin on 21 May 2019.

Performance of the shares by INDEX



Shareholder structure as at 31 December 2018[1]



[1] Data based on the latest voting rights notifications.

Government of Singapore: *Indirect shareholding as reported for 6 October 2017. The government of Singapore is the majority shareholder of GIC Private Limited which held all of the reported voting rights of the company as at the key date. On that date, the total number of voting rights was 94,611,266.*
Prof Dr Gerhard Schmidt: *Attributed shareholding as reported for 21 December 2018. The shares are held by DIC Real Estate Investments GmbH & Co. Kommanditgesellschaft auf Aktien. On that date, the total number of voting rights was 103,355,228.*
Amir Dayan/Maria Saveriadou: *Attributed shareholding as reported for 6 December 2018. The shares are held by Ouram Holding S.à r.l. On that date, the total number of voting rights was 103,355,228.*
Free float: *Shareholding <5%.*

The diagram shows the voting rights last disclosed by shareholders according to Sec. 33 and Sec. 34 of the German Securities Trading Act (WpHG), based on the share capital of TLG IMMOBILIEN AG at the time. 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.

As at 31 December 2018, there were 103,384,729 shares of TLG IMMOBILIEN AG outstanding.

Coverage by analysts

Bank	Target price in EUR	Rating	Analyst	Date
Pareto Securities	24.00	Hold	Katharina Mayer	06/03/2019
HSBC	28.50	Hold	Thomas Martin	06/02/2019
Jefferies	28.00	Hold	Thomas Rothäusler	06/02/2019
Kempen & Co	27.00	Neutral	Mihail Tonchev	04/02/2019
Berenberg	26.50	Hold	Kai Klose	01/02/2019
VictoriaPartners	25.60–28.00	n/a	Bernd Janssen	25/01/2019
Kepler Cheuvreux	27.50	Buy	Thomas Neuhold	22/01/2019
Bankhaus Lampe	27.00	Hold	Georg Kanders	20/12/2018
Commerzbank	30.50	Buy	Tom Carstairs	12/12/2018
Deutsche Bank	31.00	Buy	Markus Scheufler	12/12/2018
M.M.Warburg	25.00	Hold	J. Moritz Rieser	19/11/2018
Baader Bank	22.50	Hold	Andre Remke	09/11/2018
UBS	24.00	Neutral	Osmaan Malik	09/11/2018
J.P. Morgan	26.00	Neutral	Tim Leckie	14/08/2018
Bank of America Merrill Lynch	28.00	Buy	Camille Bonnell	13/08/2018

Source: Bloomberg (as at 7 March 2019) and broker research

Bank of America Merrill Lynch started covering the shares of TLG IMMOBILIEN AG in the first quarter of 2018 and NordLB discontinued its coverage in the third quarter.

INVESTOR RELATIONS ACTIVITIES

In the 2018 financial year, we communicated closely with our shareholders, analysts and potential investors. TLG IMMOBILIEN AG attended the following national and international banking conferences:

- J.P. Morgan – European Real Estate CEO Conference, London
- ODDO & Cie – ODDO BHF FORUM, Lyon
- UniCredit Kepler Cheuvreux – German Corporate Conference, Frankfurt/Main
- ODDO SEYDLER – 12th ODDO BHF German Conference, Frankfurt/Main
- Commerzbank – German Real Estate Forum, London
- UBS – Pan European Small & Mid Cap Conference, London
- Kepler Cheuvreux – German & Austrian Property Days, Paris
- Kempen – 16th European Property Seminar, Amsterdam
- Berenberg – Real Estate Seminar 2018, Helsinki
- Berenberg and Goldman Sachs – Seventh German Corporate Conference, Munich
- Baader – Investment Conference 2018, Munich
- Bank of America Merrill Lynch – Global Real Estate Conference, New York
- Société Générale – PanEuropean Real Estate Conference, London
- UBS – Global Real Estate Conference 2018, London

Road shows were also held in Frankfurt/Main, London and Amsterdam. In addition to participating in conferences and road shows, we visited some of our own properties with analysts and shareholders.

TLG IMMOBILIEN AG is committed to an active dialogue with the market. For example, when the figures for 2017 and the three quarterly reports for 2018 were published, the numbers were discussed with investors and analysts in teleconferences. Furthermore, in December 2018, TLG IMMOBILIEN AG announced that the value of its property portfolio had increased significantly as at 31 December 2018 and provided investors and analysts with more details in a teleconference. Recordings of the teleconferences are available in the Investor Relations section of our website, *www.ir.tlg.eu*. On this website, we publish our quarterly and annual reports, our latest company presentation, ad hoc announcements, company news, voting rights notifications and directors' dealings. The share price of TLG IMMOBILIEN can also be found here. Likewise, the website clearly delineates the shareholder structure and provides essential share-related information.

EPRA KEY FIGURES

The European Public Real Estate Association (EPRA) is a not-for-profit association based in Brussels. It represents the interests of listed real estate companies in Europe and is committed to consistent, transparent financial reporting.

TLG IMMOBILIEN AG has been a member of the EPRA since November 2014 and, as a company listed on the stock exchange, attributes great importance to transparency and comparability in reporting. The following key figures were calculated in line with the Best Practice Recommendations of the EPRA.

Overview of key figures according to EPRA

in EUR k	31/12/2018	31/12/2017	Change	Change in %
EPRA NAV	2,715,723	2,228,512	487,211	21.9
EPRA NNNAV	2,121,149	1,827,981	293,168	16.0
EPRA Net Initial Yield (NIY) in %	4.5	5.2	– 0.7 pp	
EPRA “topped-up” Net Initial Yield in %	4.5	5.3	– 0.8 pp	
EPRA Vacancy Rate in %	3.3	3.6	– 0.3 pp	

in EUR k	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Change	Change in %
EPRA Earnings	129,587	104,147	25,440	24.4
EPRA Cost Ratio (including direct vacancy costs) in %	27.2	27.1	0.1 pp	
EPRA Cost Ratio (excluding direct vacancy costs) in %	26.1	26.0	0.1 pp	

EPRA AWARDS

The company received the EPRA BPR Gold Award for its Annual Report 2017. This is the fourth Gold Award in a row.

Additionally, TLG IMMOBILIEN received the EPRA sBPR Silver Award for its second sustainability report, having already received it for its first report. In these reports, the company reports on key figures relating to the environment, society and governance in accordance with the criteria of the EPRA. The reports are available at *https://www.tlg.eu/sustainability*.

EPRA EARNINGS

EPRA Earnings is an indicator of the recurring income from core business operations and is therefore fundamentally similar to the FFO calculation. EPRA Earnings does not factor in revenue components which have no influence on the long-term performance of a real estate platform. This includes, for example, remeasurement effects, the amortisation of goodwill and the result from the disposal of properties.

Unlike the FFO calculation carried out by the TLG IMMOBILIEN Group, EPRA Earnings does not exclude other non-cash or non-recurring effects.

The significant increase in EPRA Earnings over the same period in the previous year is due primarily to the higher rental income resulting from the successful investments and the conclusion of new rental agreements.

EPRA Earnings

in EUR k	01/01/2018–31/12/2018	01/01/2017–31/12/2017	Change	Change in %
Net income	310,946	284,373	26,573	9.3
Result from the remeasurement of investment property[1]	– 552,884	– 210,782	– 342,102	162.3
Result from the disposal of properties[1]	– 7,833	– 10,377	2,544	– 24.5
Tax on profits or losses on disposals	0	– 325	325	– 100.0
Result from the remeasurement of derivative financial instruments and refinancing costs	7,926	13,534	– 5,608	– 41.4
Acquisition costs of share deals	1,964	6,501	– 4,537	– 69.8
Deferred and actual taxes in respect of EPRA adjustments	207,764	21,799	185,965	n/a
Amortisation of goodwill	164,723	0	164,723	0
Non-controlling interests	– 3,019	– 576	– 2,443	424.1
EPRA Earnings[1]	**129,587**	**104,147**	**25,440**	**24.4**
Average number of shares outstanding in thousands[2]	102,842	79,681		
EPRA Earnings per share in EUR	1.26	1.31		

[1] In the 2018 financial year, the reclassification of line items caused individual amounts from the previous year to change (see section F of the notes).
[2] Total number of shares as at 31 December 2017: 102.0 m, as at 31 December 2018: 103.4 m.
The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.

EPRA NET ASSET VALUE (EPRA NAV)

The EPRA NAV calculation discloses a net asset value on a consistent, comparable basis. The EPRA NAV is a key performance indicator for the TLG IMMOBILIEN Group.

TLG IMMOBILIEN also reported an adjusted EPRA NAV for the first time in 2017. The difference is that all recognised goodwill is neutralised instead of just the goodwill attributable to deferred taxes. The goodwill which largely resulted from the takeover of WCM had been amortised as at the end of 2018.

Compared to 31 December 2017, the EPRA NAV increased by EUR k 487,211 to EUR k 2,715,723, which equates to an EPRA NAV per share of EUR 26.27.

The increase was largely the result of the increase in equity due to the net income of EUR k 310,946. This was mainly due to the successful course of business and the highly positive development of the value of the property portfolio. The payment of a dividend of EUR k 84,645 to the shareholders had the opposite effect.

EPRA Net Asset Value (EPRA NAV)

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Equity of the shareholders of TLG IMMOBILIEN	2,133,924	1,897,636	236,288	12.5
Fair value adjustment of fixed assets (IAS 16)	17,168	8,807	8,361	94.9
Fair value adjustment of real estate inventories (IAS 2)	1,182	1,174	8	0.7
Fair value of derivative financial instruments	8,604	1,813	6,791	374.6
Deferred taxes[1]	554,845	367,983	186,862	50.8
Goodwill from deferred taxes	0	– 48,901	48,901	– 100.0
EPRA Net Asset Value (EPRA NAV)	**2,715,723**	**2,228,512**	**487,211**	**21.9**
Number of shares in thousands[2]	103,385	102,029		
EPRA NAV per share in EUR	**26.27**	**21.84**		
Adjustment of remaining goodwill	0	– 115,823	115,823	– 100.0
Adjusted EPRA Net Asset Value (EPRA NAV)	**2,715,723**	**2,112,689**	**603,034**	**28.5**
Number of shares in thousands[2]	103,385	102,029		
Adjusted EPRA NAV per share in EUR	26.27	20.71		

[1] The calculation is closely based on the specifications of the EPRA and only neutralises deferred tax assets and liabilities attributable to investment property and derivative financial instruments.
[2] Total number of shares as at 31 December 2017: 102.0 m, as at 31 December 2018: 103.4 m. The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.

EPRA TRIPLE NET ASSET VALUE (EPRA NNNAV)

EPRA recommends the calculation of an EPRA Triple Net Asset Value (EPRA NNNAV) which, in addition to the EPRA NAV, corresponds to the fair value of the company without the going concern principle. The EPRA NAV excludes hidden liabilities and hidden reserves resulting from market valuations of liabilities as well as deferred taxes.

As at 31 December 2018, the EPRA Triple Net Asset Value was EUR k 2,121,149 compared to EUR k 1,827,981 in the previous year. The difference of EUR k 293,168 was due primarily to the development of equity driven by the high net income.

EPRA Triple Net Asset Value (NNNAV)

in EUR k	31/12/2018	31/12/2017	Change	Change in %
EPRA Net Asset Value (EPRA NAV)	**2,715,723**	**2,228,512**	**487,211**	**21.9**
Fair value of derivative financial instruments	– 8,604	– 1,813	– 6,791	374.6
Fair value adjustment of liabilities due to financial institu-tions / bonds	– 28,892	– 28,502	– 390	1.4
Deferred taxes[1]	– 557,078	– 370,216	– 186,862	50.5
EPRA Triple Net Asset Value (EPRA NNNAV)	**2,121,149**	**1,827,981**	**293,168**	**16.0**
Number of shares in thousands[2]	103,385	102,029		
EPRA NNNAV per share in EUR	20.52	17.92		

[1] The calculation is closely based on the specifications of the EPRA and only neutralises deferred tax assets and liabilities attributable to investment property, derivative financial instruments and liabilities due to financial institutions (only EPRA NNNAV).
[2] Total number of shares as at 31 December 2017: 102.0 m, as at 31 December 2018: 103.4 m.
The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.

EPRA NET INITIAL YIELD (EPRA NIY) AND EPRA "TOPPED-UP" NET INITIAL YIELD

The EPRA Net Initial Yield (EPRA NIY) is a figure which reflects the yield of the property portfolio. It is calculated as the ratio between rental income as at the reporting date less property outgoings and the gross market value of the property portfolio.

Rent-free periods are adjusted in the rent calculation for the EPRA "topped-up" NIY.

EPRA Net Initial Yield (EPRA NIY) and EPRA "topped-up" Net Initial Yield

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Investment property	4,067,527	3,383,259	684,268	20.2
Inventories	737	762	– 25	– 3.3
Properties classified as held for sale	33,080	9,698	23,382	241.1
Property portfolio (net)	**4,101,344**	**3,393,719**	**707,625**	**20.9**
Estimated transaction costs	298,288	244,613	53,675	21.9
Property portfolio (gross)	**4,399,632**	**3,638,332**	**761,300**	**20.9**
Annualised cash passing rental income	226,456	212,498	13,958	6.6
Property outgoings	– 28,761	– 22,617	– 6,144	27.2
Annualised net rents	**197,695**	**189,881**	**7,814**	**4.1**
Notional rent for ongoing rent-free periods	697	1,558	– 861	– 55.3
Annualised "topped-up" net rent	**198,392**	**191,439**	**6,953**	**3.6**
EPRA Net Initial Yield (EPRA NIY) in %	**4.5**	**5.2**	**– 0.7 pp**	
EPRA "topped-up" Net Initial Yield in %	**4.5**	**5.3**	**– 0.8 pp**	

EPRA VACANCY RATE

The EPRA Vacancy Rate is the ratio between the market rent for vacant properties and the market rent for the overall portfolio as at the reporting date. The market rents used in this calculation were calculated by Savills Advisory Services Germany GmbH & Co. KG for the properties of TLG IMMOBILIEN (without WCM) and by Cushman & Wakefield LLP for the properties of WCM as part of the measurement of each portfolio's fair value. At 3.3% in the 2018 reporting year, the EPRA Vacancy Rate for the portfolio as a whole decreased slightly (previous year 3.6%). Considered on a like-for-like basis, i.e. without consideration for the acquisitions and disposals in 2018, the portfolio shows a 0.6 pp reduction in the EPRA Vacancy Rate to 3.0%.

EPRA Vacancy Rate

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Market rent for vacant properties	8,542	8,055	487	6.0
Total market rent	258,583	226,278	32,305	14.3
EPRA Vacancy Rate in %	**3.3**	**3.6**	**– 0.3 pp**	

EPRA COST RATIO

The EPRA Cost Ratio is the ratio between the total operative and administrative expenses and rental income, in order that the expenditure of the overall real estate platform as a percentage of rental income can be compared between various real estate companies. The relevant operative and administrative costs reported in the EPRA Cost Ratio include all expenses resulting from the operational management of the property portfolio that cannot be recovered or passed on, excluding changes in carrying amount, write-downs such as goodwill, borrowing costs and tax expenditure. It includes one-off effects and non-recurring costs.

In the 2018 financial year, the higher operational management expenses and higher personnel costs in connection with the premature termination of the contracts of the members of the Management Board resulted in an increase in EPRA costs and in turn the EPRA Cost Ratio.

No internally produced services in connection with construction measures or property management were capitalised in the reporting year or in the previous year. With regard to construction measures, the role of TLG IMMOBILIEN is limited to that of a principal. Any further services are normally subcontracted to third parties.

EPRA Cost Ratio

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
Costs pursuant to the consolidated statement of compre-hensive income under IFRS				
Expenses relating to letting activities[1]	74,717	53,372	21,345	40.0
Personnel expenses	16,505	12,001	4,504	37.5
Depreciation and amortisation	1,032	466	566	121.5
Other operating expenses[1]	16,128	19,342	– 3,214	– 16.6
Income from recharged operating costs	– 45,524	– 37,693	– 7,831	20.8
Income from other goods and services	– 1,603	– 1,730	127	– 7.3
Other operating income from reimbursements	– 247	– 169	– 78	46.2
Ground rent	0	– 8	8	– 100.0
EPRA Costs (including direct vacancy costs)[1]	**61,008**	**45,581**	**15,427**	**33.8**
Direct vacancy costs	– 2,621	– 1,792	– 829	46.3
EPRA Costs (excluding direct vacancy costs)[1]	**58,387**	**43,789**	**14,598**	**33.3**
Rental income	223,886	168,310	55,576	33.0
EPRA Cost Ratio (including direct vacancy costs) in %	**27.2**	**27.1**	**0.1 pp**	
EPRA Cost Ratio (excluding direct vacancy costs) in %	**26.1**	**26.0**	**0.1 pp**	

[1] In the 2018 financial year, the reclassification of line items caused individual amounts from the previous year to change (see section F of the notes).

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"). In addition to 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 2018 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 2018 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 March 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 (the "Code") dated 7 February 2017 (published on 24 April 2017 and corrected on 19 May 2017) since the last declaration of compliance in November 2018, 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.

By appointing a CFO and a COO, the company has decided against dual leadership. The market can assume that, in future, the company will strive for a Management Board consisting of three persons with the traditional CEO-CFO-COO structure.

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 (2) SENTENCE 2 OF THE CODE: REGULAR LIMIT OF THE TERM OF OFFICE FOR THE MEMBERS OF THE SUPERVISORY BOARD

According to recommendation 5.4.1 (2) sentence 2 of the Code, the Supervisory Board should specify a regular limit of the term of office for the members of the Supervisory Board.

A regular limit of the term of office for members of the Supervisory Board was also defined as part of the preparation of a profile of skills and expertise for the Supervisory Board in November 2018, which means that the company has met this requirement since the date specified and will continue to meet it in future.

RECOMMENDATION 5.4.1 (3) SENTENCE 2 OF THE CODE: THE SUPERVISORY BOARD DETERMINES TARGETS FOR THE SHARE OF FEMALE MEMBERS

According to recommendation 5.4.1 (3) sentence 2 of the Code, the Supervisory Board should determine targets for the share of female members.

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.

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. 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. 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, disposals, portfolio/asset management, marketing and public relations, acquisitions and disposals, property management and development projects. Both 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 which the Supervisory Board most recently updated in January 2019. 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 of 10 August 2017 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 2019 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. In addition to 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%. Due to the resignation of Ms Stheeman with effect from 29 January 2018 and the judicial appointment of Mr Stefan E. Kowski as a new member of the Supervisory Board, this target is currently not being met by the Supervisory Board.

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 2018 financial year, the Management Board consisted of two equal members, each of whom was responsible for the divisions to which they had been assigned. The Management Board consisted of four people (two of whom were not assigned to a department) for just one transitional period from 17 September to 31 October 2018.

Pursuant to the Articles of Association, the Supervisory Board consists of six members. It is not subject to any employee participation. All of the members are elected by the general meeting as representatives of the shareholders. Ms Stheeman resigned from her position on the Supervisory Board with effect from 29 January 2018. Mr Stefan E. Kowski was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 21 February 2018 until the end of the general meeting in 2018, and subsequently by resolution of the general meeting on 25 May 2018.

Furthermore, Mr Masuhr resigned from the Supervisory Board with effect from 31 January 2018. Mr Sascha Hettrich was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 5 March 2018 until the end of the general meeting in 2018, and subsequently by resolution of the general meeting on 25 May 2018.

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

The company currently has no specific diversity concept in place in the sense of Sec. 289f (2) no. 6 HGB beyond 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 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 (*pages 10, 11*).

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 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 accordance with the Articles of Association and rules of procedure of the Management Board, transactions of fundamental significance are subject to the consent 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 immediately. 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 2018 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 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 2019, the presidential and nomination committee consisted of Mr Michael Zahn, Dr Michael Bütter and Mr Sascha Hettrich. 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 2019 calendar year.

As at March 2019, the audit committee consisted of Mr Helmut Ullrich (Chairperson), Mr Michael Zahn 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) sentence 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 capital market and acquisitions committee consists of Mr Michael Zahn (Chairperson), Dr Michael Bütter and Mr Helmut Ullrich.

PROJECT DEVELOPMENT COMMITTEE

The Supervisory Board formed a project development committee on 29 November 2017. The committee advises the Supervisory Board on development projects.

The committee consists of Mr Sascha Hettrich (Chairperson), Dr Michael Bütter and Mr Helmut Ullrich.

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. The Management Board performs its management duties as a collegial body, 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 members, 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 2018 financial year is published on the company's website 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. The company has also 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 immediately, or within three working days of the date of the transaction at the latest. Pursuant to Article 19 (2) of the Market Abuse Regulation, the company immediately publishes these transactions 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 77*. Information on Group accounting can be found on *page 85*.

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 company's website 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 branch office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed auditor and Group auditor for 2018 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.

*Office property "Max-Born-Offices",
Max-Born-Str.,
Hamburg (acquisition in 2018)*

REPORT ON THE POSITION OF THE COMPANY AND OF THE GROUP

REPORT ON THE POSITION OF THE COMPANY AND OF THE GROUP 2018

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

The business model and the corporate strategy of TLG IMMOBILIEN are based on the following pillars:

- **Portfolio management**
  Portfolio management forms the strategic orientation of the portfolio with regard to regional markets and locations, individual asset classes and general trends in the property market. It also monitors the development of the portfolio and the valuation of properties.

- **Asset management**
  Asset management identifies the most economical long-term strategy for every property and is responsible for implementing it. Suitable instruments are selected with regard to renting, conversion and modernisation measures in order to generate the highest possible value for every single property.

- **Transaction management**
  With its years of expertise, TLG IMMOBILIEN is very well connected in its core markets and operates in the transaction market with an experienced team. Acquisition and disposal processes are controlled by the internal transaction management team from the identification of potential transaction partners to the due diligence phase and contractual negotiations.

- **Property management**
  Property management is responsible for ongoing commercial property management. This entails maintaining relations with tenants and managing service providers in the property. The property management team is decentralised so that it can be present on site for tenants and properties.

The objective of business operations is to optimise the high-quality property portfolio through even more active asset management and tap the potential of selected properties for value growth through construction and conversion measures. In addition to continued growth from the acquisition of properties with the potential for value growth, non-strategic properties are disposed of in order to further refine the portfolio as a whole.

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 three 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 on a corporate and portfolio level 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 implementation 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 six members.

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND PROPERTY MARKETS

2.1.1 General economic situation

As in previous years, the German economy in 2018 was characterised by continuous, albeit slower, growth. According to the calculations of the Federal Statistical Office, the average real gross domestic product (GDP) in the year was 1.5% higher than in the previous year. However, in the second half of the year, growth was stifled by the trade war between China and the USA, growing international risks and the marketing difficulties experienced by the automotive industry, causing the GDP in the third quarter to be 0.2% lower than in the same quarter in the previous year. Nevertheless, the German growth phase is continuing for its ninth year in a row. For one, the positive developments are due to growth in private (+ 1.0%) and public consumption expenditure (+ 1.1%). The economic dynamism was more reliant on growing domestic demand in 2018 than in previous years. The information and communication sector reported above-average growth of 3.7% while the construction industry grew by 3.6%. Likewise, the retail, traffic and hospitality sector experienced above-average growth of 2.1%.

According to the Federal Statistical Office, the number of employed people increased to 44.8 million in 2018 after reaching its highest level since the reunification of Germany in 2017. This increase of 562,000 people (1.3%) is largely due to an increase in the number of employed people who are subject to social security contributions. The positive employment rate and general economic conditions had a positive effect on public households. In the year ended, the state generated a record surplus of EUR 59.2 bn which represents an increase of 74.1% over 2017 (EUR 34.0 bn). The national income accounts also confirm that construction investments are on the increase. According to the Federal Ministry for Economic Affairs and Energy (BMWI), it was 3.0% higher in 2018 than in the previous year.

The growing risks in international markets in light of the international trade war, the uncertainty surrounding Brexit and the levels of debt that have increased significantly for many households since 2007 did not impact the German commercial property investment market in 2018. In contrast, according to data published by the consultancy firm Jones Lang LaSalle (JLL), the segment experienced a record year with a volume of transactions of EUR 60.3 bn (2017: EUR 56.8 bn). This means that the volume has tripled since 2010 and represents growth of 6.0% compared to 2017. As such, JLL does not believe that the moderately higher interest rates or the behaviour of market players in Germany are indicative of a turning point in the cycle. However, the analysts stress that the boom in recent years is due primarily to a lack of alternative investments.

Investors are still focused on the top seven cities. According to JLL, well over half of the total volume of investments, including residential properties (EUR 46 bn of EUR 79 bn), was attributable to the property markets in the metropolises. The volume of transactions has grown again since the previous year (EUR 38.3 bn), in which regard, at 20%, the growth rate itself was far higher than in 2017 (+5%). Frankfurt/Main toppled Berlin from first place with transactions worth EUR 11.6 bn (2017: EUR 7.8 bn), which represents a significant 49% increase. In Berlin, on the other hand, turnover declined by 8% to EUR 10.8 bn (2017: EUR 11.7 bn), with Cologne faring no better (EUR 2.5 bn; 4% decline). The other top-rated cities Munich (+14%), Düsseldorf (+26%), Hamburg (+44%) and especially Stuttgart (+56%) all reported growth compared to the previous year. The proportionate involvement of foreign investors, who accounted for around 39% of the volume of transactions, decreased (2017: 45%). Overall, JLL attributes the increase in the volume of transactions to price increases, whereas fewer properties have been traded than in 2017. Meanwhile, the strong rental market and the measurement of potential increases in rent are increasingly leading to value growth, whereas the pressure on yields decreased in 2018.

2.1.2 Development of the office property market

The high employment figures and economic growth are having a positive effect on the office property market. The volume of turnover in this asset class was 4.0 million sqm in the metropolises in 2018, falling slightly short of the record value in 2017 (–6.5%). According to JLL, this decline cannot be explained by companies not expanding as rapidly, but rather by the lack of space which has made planned relocations and expansions more difficult. In line with the trend, the volume of turnover only surpassed 2017 in one of the seven top markets – Düsseldorf with 415,000 sqm (an increase of 6.2%). Once again, the largest sub-markets were Munich with 975,000 sqm and a slight decline of 2.0% and Berlin with almost 842,000 sqm (a decline of 10.9% year over year).

According to JLL, net absorption also underlines that the scarcity of space is causing the decline in turnover. It was 1.2 million sqm in the top seven cities in 2018 as a whole, which represents an increase of 10% over the previous year and the highest value for the past five years. Meanwhile, providers of flexible office space retained their 6% share which even reached 16% in top-rated locations. The volume of available office space in the A-rated cities fell by 10% or more across the board. The lowest vacancy rates were to be found in Berlin with 2.0% (42.6% lower than in 2017) and Stuttgart with 2.2% (17.0% lower than in 2017), which explains the relatively significant declines in turnover in both cities.

Once again, the lack of space could not be negated by opening new offices in 2018. At around 927,000 sqm (860,000 sqm in 2017), the increase in the volume of construction was just 8% according to JLL, with Munich and Berlin experiencing the strongest growth in space with 300,000 sqm and 147,000 sqm respectively. While the completion rates in these two cities as well as Cologne increased by over 30% in each case, they declined across the board in the other top seven locations. Consequently, the growth in top rents was strong and accelerated yet again compared to the previous year. For example, the increase in prices per square metre in 1A-rated locations ranted from 3.7% in Düsseldorf to 13.3% in Berlin and was higher than in the previous year in every metropolis except Stuttgart.

2.1.3 Development of the retail property market

The consumer climate index of the market research institute GfK indicated declines from the second quarter of 2018 onwards. Although income expectations increased slightly in line with the high employment figures at the end of the year, expectations for the economy and propensity to buy on the part of consumers both decreased. Overall, in spite of the decreasing dynamism of the economy over the course of the year, the values were only slightly lower than the index at the start of the year. Affected by the positive situation on the job market, the generally stable level of domestic economic activity is reflected by retail: the Federal Statistical Office estimates that turnover in the sector in 2018 increased by between 3.1% and 3.3% nominally and between 1.4% and 1.5% when adjusted for price. Therefore, the growth was consistent with the increase in GDP although it was significantly lower than the growth rate in the previous year (4.6% nominally; 2.7% adjusted for price). The volume of transactions in the retail asset class developed in line with this modest growth and its share has decreased to around 13% of the commercial property market according to JLL: it declined by 9% and amounted to EUR 10.5 bn. In contrast, the rental market performed better than expected, with around 360,000 sqm of space traded in 803 transactions in the first three quarters of 2018 – this represents growth of 5% over the previous year. According to JLL, a volume of 480,000 sqm has been reported for 2018 as a whole. In this regard, the developments varied significantly from region to region in the top ten locations compared to the same period in the previous year; the volume of rental turnover more than doubled in Leipzig (+ 157%), for example. In Frankfurt/Main and Berlin, it increased by 92% and 81% respectively.

2.1.4 Development of the hotel property market

The hospitality sector profited more from the positive economic situation than the economy as a whole in 2018. The Federal Statistical Office counted 447.9 million overnight stays from January to November (431 million in 2017), which represents an increase of 4% over the same period in the previous year. The number of foreign guests increased disproportionately at + 5% (to 81.5 million overnight stays). According to the preliminary prognosis of the Federal Statistical Office, 2018 was therefore a new record year.

The results of the autumn economic survey carried out by the German Hotel and Restaurant Association (DEHOGA) were somewhat more modest. Of the catering establishments that took part in the survey, 79.5% had increased or maintained their turnover in the six months over summer compared to the same period in the previous year (2017: 79.1%) whereas 20.5% had suffered declines in business (2017: 20.9%). However, increasing operating costs are affecting income and 29.5% of the businesses were forced to report declines. 31.6% of the businesses generated higher profits than in the previous year. DEHOGA forecasts a 2.5% increase in turnover for the sector as a whole in 2018.

According to BNP Paribas Real Estate (BNPPRE), turnover in the hotel property market decreased by almost 4% compared to the previous year, reaching EUR 4.0 bn. However, the decline was not the result of falling demand, but rather the significantly shorter supply, especially in the core and core plus segments. As in previous years, the sales of individual hotels led to significant growth rates. A new record level of turnover of EUR 3.2 bn was even achieved in 2018. Meanwhile, the turnover from large-scale portfolio transactions decreased to just EUR 820 m, which represents a decrease of almost 25% year over year. The countries of origin of the investors, 52% of whom were from Germany, were equivalent to 2017. As in the previous year, the market was dominated by special funds as the largest buyer group, although their share decreased to 19% (2017: 29%).

2.2 COURSE OF BUSINESS

General statement

In the 2018 financial year, TLG IMMOBILIEN was able to continue implementing its growth strategy successfully. Successful rental agreements, remeasurements and acquisitions were the main drivers of a 21% increase in value to around EUR 4.1 bn. The new management of the company has initiated the next phase of growth by defining four strategic packages of measures designed to improve the total shareholder return in the long term. Alongside even more active asset management and construction and conversion measures designed to increase the value of selected properties, the portfolio remains focused on acquisitions of properties with potential for value growth and the disposal of non-strategic properties.

Following an extensive analysis of its portfolio, TLG IMMOBILIEN has categorised the properties in its portfolio into a strategic and a non-strategic portfolio as at 31 December 2018. Properties in the strategic portfolio generate sustainable income and have further potential for revenue and value growth through active asset management or portfolio investments. Properties in the non-strategic portfolio are to be sold over the next few years, making use of the favourable market situation in the process. As a result, the property portfolio can be broken down as follows:

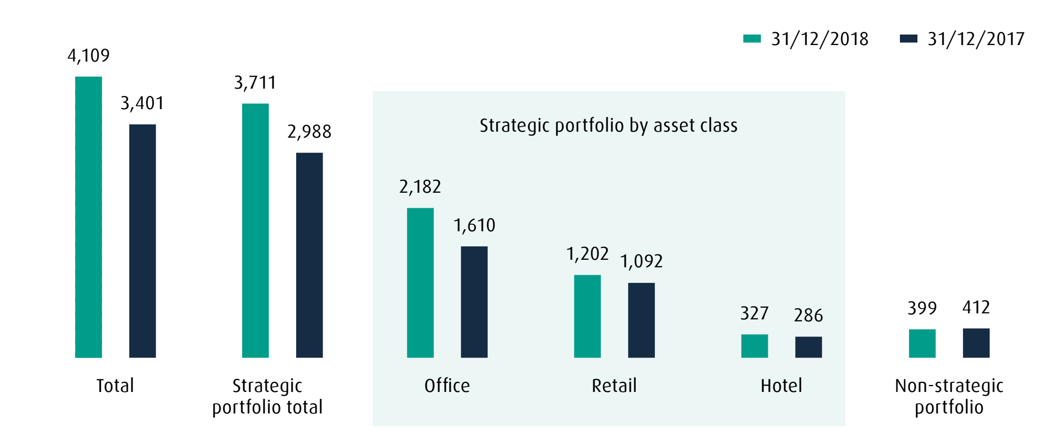
	Strategic portfolio					
Key figures	**Office**	**Retail**	**Hotel**	**Total**	**Non-strategic portfolio**	**Total**
Property value (EUR k)[1]	2,181,743	1,202,225	326,740	3,710,708	398,741	**4,109,449**
Annualised in-place rent (EUR k)[2]	100,021	79,891	16,515	196,427	30,727	**227,154**
In-place rental yield on actual rent (%)	4.6	6.6	5.0	5.3	7.7	**5.5**
In-place rental yield on market rent (%)	5.7	6.8	6.4	6.1	7.4	**6.2**
EPRA Vacancy Rate (%)	4.1	2.1	3.3	3.3	3.2	**3.3**
WALT (years)	5.5	5.5	11.6	6.0	6.7	**6.1**
Average actual rent [EUR/sqm/month]	11.67	10.08	13.18	11.07	7.68	**10.44**
Average market rent [EUR/sqm/month]	13.79	9.82	16.13	12.20	7.07	**11.27**
Properties (number)	62	217	7	286	123	**409**
Lettable area (sqm)	763,108	690,540	109,712	1,563,359	349,433	**1,912,793**

[1] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5
[2] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

As at 31 December 2018, the property portfolio of TLG IMMOBILIEN comprised 409 properties (previous year 426) with a fair value (IFRS) of around EUR 4.109 bn (previous year around EUR 3.401 bn). Besides acquisitions (19.8%), the effects of disposals (–2.4%) and investments in the portfolio (4.7%), the increase by around EUR 708 m is due to remeasurements (78.0%) in particular. Of the total value of the portfolio, 90.3% is attributable to the strategic portfolio (previous year 87.9%). With regard to the strategic portfolio, office properties are the strongest asset class at 58.8% (previous year 48.5%), followed by retail properties at 32.4% (previous year 42.5%) and hotels at 8.8% (previous year 9.0%). The non-strategic portfolio essentially consists of retail properties at 85.1% (previous year 84.1%) as well as office properties at 5.1% (previous year 6.6%) and other properties at 9.7% (previous year 9.3%). The figures from the previous year have been adjusted to the new portfolio classification system here and below.

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

in EUR m



On a like-for-like basis, i.e. not factoring in acquisitions or disposals in 2018, there has been a 17.5% increase in value overall – 19.4% for the strategic portfolio and 2.4% for the non-strategic portfolio – due to the asset management of TLG IMMOBILIEN and the positive development of the markets, especially in Berlin. With regard to the strategic portfolio, office properties experienced the most significant value growth of 27.8% to EUR k 2,057,534 on a like-for-like basis (previous year EUR k 1,610,246), followed by hotel properties with growth of 14.3% to EUR k 326,740 (previous year EUR k 285,899) and retail properties with growth of 8.4% to EUR k 1,184,225 (previous year EUR k 1,092,260).

In the reporting year, the acquisitions combined with the renting activities of asset management led to a 6.1% increase in annualised in-place rent to EUR k 227,154 (previous year EUR k 214,057). On a like-for-like basis, there has been an increase of 2.9% overall and of 3.2% with regard to the strategic portfolio. The largest increase was 7.1% in the office asset class in Berlin. This rent increase does not yet factor in rental agreements starting after 31 December 2018.

At 3.3% for the entire portfolio (previous year 3.6%), the EPRA Vacancy Rate decreased slightly, and on a like-for-like basis it decreased by 0.6 percentage points to 3.0%. With regard to the strategic portfolio, the office asset class experienced a decline of 1.6 percentage points to 3.6% on a like-for-like basis. The weighted average lease term (WALT) of the temporary rental agreements has decreased slightly from 6.3 years to 6.1 years, or from 6.3 years to 6.2 on years on a like-for-like basis.

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

2.3.1 Financial performance

In the 2018 financial year, TLG IMMOBILIEN generated net income for the period of EUR k 310,946 as a reflection of the highly positive development of the Group as a whole.

The income was EUR k 26,573 higher than in the previous year, due mainly to the influence of the EUR k 342,102 higher result from the remeasurement of investment property. Additionally, the EUR k 41,822 increase in net operating income from letting activities had a positive effect. The amortisation of goodwill totalling EUR k 164,724, most of which resulted from the takeover of WCM, had a negative effect on earnings. The table below presents the financial performance:

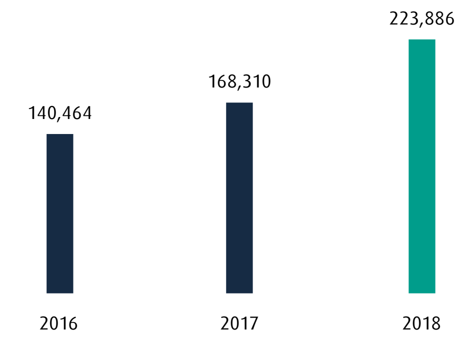
in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
Net operating income from letting activities[1]	**196,726**	**154,904**	**41,822**	**27.0**
Result from the remeasurement of investment property[1]	552,884	210,782	342,102	162.3
Result from the disposal of properties[1]	7,833	10,377	– 2,544	– 24.5
Other operating income	1,996	1,909	87	4.6
Personnel expenses	– 16,505	– 12,001	– 4,504	37.5
Depreciation and amortisation	– 165,755	– 466	– 165,289	n/a
Other operating expenses[1]	– 16,128	– 19,342	3,214	– 16.6
Earnings before interest and taxes (EBIT)	**561,051**	**346,163**	**214,888**	**62.1**
Financial income	628	117	511	436.8
Financial expenses	– 32,109	– 44,617	12,508	– 28.0
Result from the remeasurement of derivative financial instruments	– 7,904	5,664	– 13,568	n/a
Earnings before taxes	**521,666**	**307,327**	**214,339**	**69.7**
Income taxes	– 210,720	– 22,955	– 187,765	n/a
Net income	**310,946**	284,373	26,573	9.3
Other comprehensive income (OCI)	489	8,207	– 7,718	– 94.0
Total comprehensive income	**311,435**	**292,580**	**18,855**	**6.4**

[1] In the 2018 financial year, the reclassification of line items caused individual amounts from the previous year to change (see section F of the notes).

The net operating income from letting activities was EUR k 196,726 in 2018 and was EUR k 41,822 higher than in the previous year, especially due to the consolidation of WCM for the entire year for the first time, the acquisition of new properties and the conclusion of new rental agreements in the portfolio. Rental income developed as follows:

Rental income

in EUR k



In the 2018 financial year, the result from the remeasurement of investment property was EUR k 342,102 higher than in the same period in the previous year, reaching EUR k 552,884. Essentially, the highly positive development of the value of the property portfolio was due to positive market price developments and was largely concentrated in Berlin and the office asset class. Additionally, the successful conclusion of new rental agreements had a positive effect on the development of value.

Net income from the disposal of properties is recognised for the first time in the consolidated financial statements for 2018 and, besides the revenue and write-downs for the sold properties, encompasses the expenses related to the disposal (EUR k 88; previous year EUR k 10) as well as the changes in their carrying amounts resulting from the disposal (EUR k 7,921; previous year EUR k 7,827). The values from the previous year have been adjusted. Changes in fair value resulting from remeasurements not related to the disposal have not been taken into account here. Compared to the same period in the previous year, the result from the disposal of properties decreased by EUR k 2,544 to EUR k 7,833.

The other operating income of EUR k 1,996 was at the same level as in the previous year. It was mainly influenced by EUR k 327 from the reversal of allowances resulting from rent receivable and income of EUR k 1,181 from prior periods.

In 2018 as a whole, personnel expenses increased by EUR k 4,504 to EUR k 16,505, due primarily to the increase in the average number of employees as well as general and individual salary adjustments at the start of the year. Additionally, the special payments made in connection with the premature termination of the contracts of the members of the Management Board had an effect, as did a special item resulting from the transition of the long-term incentive scheme.

Depreciation and amortisation mainly comprise expenses from the impairment of goodwill. The full allowance was recognised following the impairment test carried out on 31 December 2018 on the recognised goodwill of EUR 164.8 m derived from the acquisition of WCM in 2017 and TLG FAB in 2014.

Compared to the same period in the previous year, other operating expenses decreased by EUR k 3,214 to EUR k 16,128. In the same period in the previous year, expenses of EUR k 8,043 were incurred for transactions, especially in connection with the takeover of WCM and the related integration measures, compared to EUR k 2,549 in the reporting period. Higher general administrative expenses due to the addition of WCM to the platform had the opposite effect.

In 2018, financial expenses decreased by EUR k 12,508 compared to the previous year, reaching EUR k 32,109. The primary cause of this was expenses of EUR k 19,198 for the premature repayment of loans and interest rate hedges resulting from liability structure optimisation measures and disposals.

In the 2018 financial year, there were expenses of EUR k 7,904 from the remeasurement of derivative financial instruments (previous year EUR k 5,664). 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 2,956 and deferred taxes of EUR k 207,764.

EBITDA calculation

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
Net income	**310,946**	**284,373**	**26,573**	**9.3**
Income taxes	210,720	22,955	187,765	n/a
EBT	521,666	307,327	214,339	69.7
Net interest	31,481	44,500	– 13,019	– 29.3
Result from the remeasurement of derivative financial instruments	7,904	– 5,664	13,568	n/a
EBIT	561,051	346,163	214,888	62.1
Depreciation and amortisation	165,755	466	165,289	n/a
Result from the remeasurement of investment property[1]	– 552,884	– 210,782	– 342,102	162.3
EBITDA	**173,922**	**135,847**	**38,075**	**28.0**

[1] In the 2018 financial year, the reclassification of line items caused individual amounts from the previous year to change (see section F of the notes).

In the 2018 financial year, TLG IMMOBILIEN generated EBITDA of EUR k 173,922. This represents an increase of EUR k 38,075 over the previous year, due primarily to the higher net operating income from letting activities.

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 2018 financial year have resulted in a decrease in cash and cash equivalents, due primarily to the cash flow from investing activities.

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
1. Net cash flow from operating activities	**130,011**	**46,052**	**83,959**	**182.3**
2. Cash flow from investing activities	– 129,751	– 128,637	– 1,114	0.9
3. Cash flow from financing activities	– 47,843	215,646	– 263,489	n/a
Net change in cash and cash equivalents	**– 47,583**	**133,061**	**– 180,644**	**n/a**
Cash and cash equivalents at beginning of period	201,476	68,415	133,061	194.5
Cash and cash equivalents at end of period	**153,893**	**201,476**	**– 47,583**	**– 23.6**

The net cash flow from operating activities increased by EUR k 83,959 compared to the previous year and was EUR k 130,011 in the 2018 financial year, due primarily to higher cash flows from operating activities and lower interest payments on loans.

The negative cash flow from investing activities of EUR k 129,751 comprises the cash paid for the acquisition of new properties and investments in existing properties totalling EUR k 153,272. Purchase prices were paid for office properties in Mannheim, Hamburg and Eschborn in the 2018 financial year. The proceeds from the disposal of properties, which decreased by EUR k 62,572 to reach EUR k 25,025 in the reporting year, had the opposite effect.

The negative cash flow from financing activities is essentially the result of the payment of the dividend of EUR k 84,645 to the shareholders which was EUR k 25,305 higher than in the previous year. The cash received from a loan totalling EUR k 56,202 had the opposite effect.

Overall, due to the aforementioned cash flows in 2018, the cash and cash equivalents decreased by EUR k 47,583 to EUR k 153,893.

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	31/12/2018	31/12/2017	Change	Change in %
Investment property/prepayments	4,067,550	3,400,784	666,766	19.6
Other non-current assets	31,688	188,671	– 156,983	– 83.2
Financial assets	13,517	14,914	– 1,397	– 9.4
Cash and cash equivalents	153,893	201,476	– 47,583	– 23.6
Other current assets	54,199	29,903	24,296	81.2
Total assets	**4,320,847**	**3,835,748**	**485,099**	**12.6**
Equity	2,157,239	1,936,560	220,679	11.4
Non-current liabilities	1,489,610	1,556,459	– 66,849	– 4.3
Deferred tax liabilities	480,489	272,736	207,753	76.2
Current liabilities	193,509	69,993	123,516	176.5
Total equity and liabilities	**4,320,847**	**3,835,748**	**485,099**	**12.6**

At EUR k 4,067,550, the asset side is dominated by investment property as well as prepayments made towards them. Compared to the previous year, the proportion of investment property in the total assets increased from 89% to 94%, due essentially to the highly positive development of the value of the investment property and the additions from acquisitions.

The development of investment property is largely the result of fair value adjustments (EUR k 552,884), acquisitions (EUR k 140,176), the capitalisation of construction activities (EUR k 33,070) and reclassifications as assets held for sale (EUR k –48,408).

The decrease in other long-term assets compared to the previous year is essentially the result of the amortisation of goodwill, largely resulting from the takeover of WCM, totalling EUR k 164,724.

In the reporting period, cash decreased by EUR k 47,583 to EUR k 153,893, largely due to acquisitions and the payment of a dividend.

Compared to the previous year, the equity of the Group has increased by EUR k 220,679 to EUR k 2,157,239. The increase in equity was largely the result of the net income of EUR k 310,946, although the payment of a dividend of EUR k 84,645 had the opposite effect.

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Equity	2,157,239	1,936,560	220,679	11.4
Total equity and liabilities	4,320,847	3,835,748	485,099	12.6
Equity ratio in %	**49.9**	**50.5**	**– 0.6 pp**	

The equity ratio changed only slightly by −0.6 percentage points to 49.9% and as such has remained at the same level as in the previous year.

Overall, the liabilities of the TLG IMMOBILIEN Group have increased by EUR k 264,420 or 14%.

The non-current liabilities not including deferred taxes, which essentially comprised liabilities due to financial institutions and corporate bonds as at the reporting date, decreased by EUR k 66,849 in the 2018 financial year. The greatest effect was from the changes to the maturity structure of the liabilities due to financial institutions which led to a partial reclassification as current liabilities due to financial institutions.

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 increased by EUR k 123,516, largely as a result of the changes to the maturity structure of the liabilities due to financial institutions.

2.3.4 Financial performance indicators

FFO development

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
Net income	**310,946**	**284,373**	**26,573**	**9.3**
Income taxes	210,720	22,955	187,765	n/a
EBT	521,666	307,327	214,339	69.7
Result from the disposal of properties[3]	−7,833	−10,377	2,544	−24.5
Result from the remeasurement of investment property[3]	−552,884	−210,782	−342,102	162.3
Result from the remeasurement of derivative financial instruments	7,904	−5,664	13,568	n/a
Depreciation and amortisation	165,755	466	165,289	n/a
Attributable to non-controlling interests	−1,265	−729	−536	73.5
Other effects[1]	4,083	25,076	−20,993	−83.7
Income taxes relevant to FFO	−3,436	−2,633	−803	30.5
FFO[3]	**133,990**	**102,683**	**31,307**	**30.5**
Average number of shares outstanding in thousands[2]	102,842	79,681		
FFO per share in EUR	**1.30**	**1.29**	**0.01**	**0.8**

[1] In the 2018 financial year, the reclassification of line items caused individual amounts from the previous year to change (see section F of the notes).
[2] The other effects include
(a) personnel restructuring expenses (EUR k 1,512; previous year EUR k 375).
(b) transaction costs (EUR k 2,549; previous year EUR k 8,043).
(c) refinancing costs / repayment of loans (EUR k 22; previous year EUR k 19,198).
(d) income from the liquidation of Wirkbau (EUR k 0; previous year EUR k 82).
(e) income from operating costs (statement surplus) in the previous year (EUR k 0; pre-vious year EUR k 2,458).
[3] Total number of shares as at 31 December 2017: 102.0 m; as at 31 December 2018: 103.4 m.
The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.

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 result from disposals, property measurement and the measurement of derivative financial instruments, deferred taxes and extraordinary items.

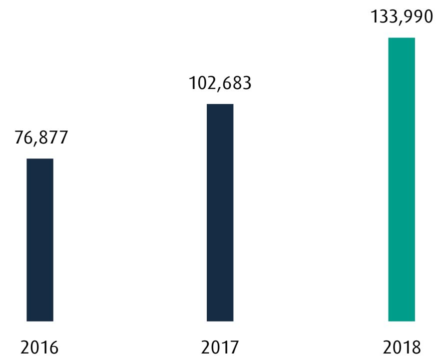
FFO was EUR k 134.0 in 2018 and was therefore 30.5% or EUR k 31,307 higher than in the previous year. At EUR 1.30, FFO per share was at the same level as in the previous year in spite of the increase in the number of shares resulting from the issuance of new shares in TLG IMMOBILIEN AG in the reporting year in exchange for shares in WCM (due to the settlement offer in the control agreement concluded by both companies).

In the 2017 financial year, TLG IMMOBILIEN forecast that its FFO in 2018 would be between EUR 125 m and EUR 128 m. This forecast was most recently revised upwards to around EUR 133 m in the Q3 financial report. As FFO reached EUR 134.0 m, the forecast for 2018 was met.

FFO has developed as follows compared to the last three years:

Funds from operations (FFO)

in EUR k



Net Loan to Value (Net LTV)

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Investment property (IAS 40)	4,067,527	3,383,259	684,268	20.2
Advance payments on investment property (IAS 40)	23	17,525	– 17,502	– 99.9
Owner-occupied property (IAS 16)	8,104	6,868	1,236	18.0
Non-current assets classified as held for sale (IFRS 5)	33,080	9,698	23,382	241.1
Inventories (IAS 2)	737	762	– 25	– 3.3
Real estate assets	**4,109,471**	**3,418,112**	**691,359**	**20.2**
Interest-bearing liabilities	1,579,442	1,541,692	37,750	2.4
Cash and cash equivalents	153,893	201,476	– 47,583	– 23.6
Net debt	**1,425,549**	**1,340,216**	**85,333**	**6.4**
Net Loan to Value (Net LTV) in %	**34.7**	**39.2**	**– 4.5 pp**	

As a ratio between net debt and real estate assets, the Net LTV is a key performance indicator for the company. It was 34.7% in the Group as at the reporting date. As such, it was well within the long-term ceiling of 45% for the Net LTV announced most recently in the 2017 annual report. The key cause of the decline of 4.5 percentage points in the reporting year was the highly positive development of the value of investment property.

EPRA Net Asset Value (EPRA NAV)

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Equity of the shareholders of TLG IMMOBILIEN	2,133,924	1,897,636	236,288	12.5
Fair value adjustment of fixed assets (IAS 16)	17,168	8,807	8,361	94.9
Fair value adjustment of real estate inventories (IAS 2)	1,182	1,174	8	0.7
Fair value of derivative financial instruments	8,604	1,813	6,791	374.6
Deferred taxes	554,845	367,983	186,862	50.8
Goodwill from deferred taxes	0	– 48,901	48,901	– 100.0
EPRA Net Asset Value (EPRA NAV)	**2,715,723**	**2,228,512**	**487,211**	**21.9**
Number of shares in thousands	103,385	102,029		
EPRA NAV per share in EUR	**26.27**	**21.84**		
Adjustment of remaining goodwill	0	– 115,823	115,823	– 100.0
Adjusted EPRA Net Asset Value (EPRA NAV)	**2,715,723**	**2,112,689**	**603,034**	**28.5**
Number of shares in thousands	103,385	102,029		
Adjusted EPRA NAV per share in EUR	26.27	20.71		

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.

Following the takeover of WCM, TLG IMMOBILIEN disclosed an adjusted EPRA NAV for the 2017 financial year for the first time; the adjusted EPRA NAV differs from the EPRA NAV in that it is fully adjusted for goodwill. The goodwill was fully amortised in the 2018 financial year.

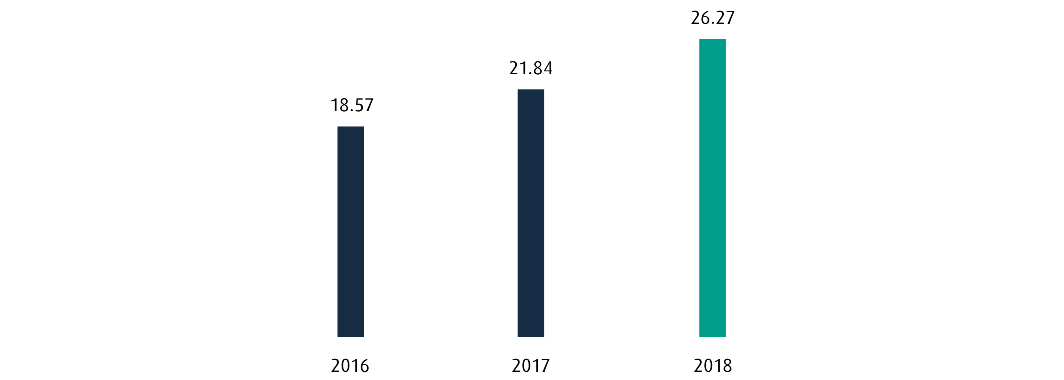
The EPRA NAV was EUR k 2,715,723 in the 2018 financial year, which equates to an EPRA NAV per share of EUR 26.27. The EPRA NAV has increased by EUR k 487,211 compared to 31 December 2017.

Essentially, the increase was due to the high net income for the period of EUR k 310,946 which was largely influenced by the highly positive development of the value of the property portfolio and the successful course of business. The payment of a dividend of EUR k 84,645 to the shareholders had a significant opposite effect.

The EPRA NAV per share developed as follows compared to the last three years:

EPRA NAV per share

in EUR



2.3.5 Non-financial performance indicators

TLG IMMOBILIEN does not directly use non-financial performance indicators to manage the company. However, the management is aware that the satisfaction of the company's staff and clients as well as its good reputation as a reliable partner in the real estate sector is extremely important for long-term success in the market.

As at 31 December 2018, TLG IMMOBILIEN had 132 employees (previous year 137), not including trainees or inactive contracts. The average number of employees was 137 (previous year 116). The change in the number of staff is due primarily to the integration of WCM and the recruitment of new employees. The average length of service at TLG IMMOBILIEN is around 10.2 years.

As a modern, attractive company with a clear growth strategy, it is the stated objective of the company to qualitatively and quantitatively strengthen its team by recruiting specific personnel. In 2018, the company recruited 40 new members of staff.

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, with a particular focus on the real estate sector and apprenticeships.

In addition to a corporate culture that favours rapid decision-making processes, the company provides optimal working conditions at modern locations with flexible working hours and attractive benefits, such as a job ticket, food allowance or accident insurance.

In 2017, TLG IMMOBILIEN AG carried out an employee survey for the third time in a row. The outstanding level of participation once again signals the interest of the staff in continuing to help 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 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. Thanks to the offices of TLG IMMOBILIEN in Berlin, Frankfurt/Main, Dresden, Erfurt, Leipzig and Rostock, the company has outstanding regional networks. The staff in these branches have solid market experience and close relations with a number of private and institutional market participants. This allows TLG IMMOBILIEN to present itself as a reliable long-term partner to commercial tenants, investors and local authorities.

TLG IMMOBILIEN is aware of the political significance of the real estate sector. It is therefore an active member of the German Property Federation (ZIA), Germany's leading property federation and the only one to be represented in the Federation of German Industry (BDI).

TLG IMMOBILIEN 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 boost professionalism with regard to transparency and the quality of corporate development and regulation.

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 greatly increased 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.

Both risk management systems were merged in the first quarter of 2018 following the takeover of WCM. As the existing risk management system of TLG IMMOBILIEN already completely covered the risks of WCM, its scope was expanded to cover WCM too. As such, a holistic risk management system is now in place throughout the TLG IMMOBILIEN Group. In this regard, the WCM risks are identified and assessed separately by the risk officers, making it possible to report and aggregate the risks for the WCM sub-group.

The integration of WCM into the risk management system of TLG IMMOBILIEN has not resulted in any significant changes to its organisation or processes.

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 have the possibility and are obliged to immediately submit an urgent risk report – possibly 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 a very 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 based on the equity of the TLG IMMOBILIEN Group, on a quarterly basis and 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 2018 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, they 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.

For the first time, the risks described for the 2018 financial year encompass matters attributable to 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 expansion of the portfolio through attractive acquisitions and the disposal of properties that no longer fit in with the company's strategy. Disposals make a significant contribution to the optimisation of the company's financial and portfolio structures. 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 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 standard contracts at their disposal 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 due diligence processes. As at the reporting date, the potential loss of transaction risks was considered medium and the probability of occurrence negligible.

Bad debt from sales and leasing

TLG IMMOBILIEN endeavours to minimise the risk of bad debt from sales and leasing by carefully selecting its contractual partners. 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.

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 anchor tenants or insolvency on their part. As the unification of the risk management system in the Group has been taken into consideration, the potential loss of the risk of bad debt as at the reporting date has been downgraded from very high to high and the probability of occurrence has remained low.

Vacancy risk

The vacancy risk is when a property cannot be leased or sub-leased at a reasonable price or at all. 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. The avoidance and reduction of risk also involves the timely identification and fulfilment of tenant requirements. In collaboration with tenants, areas of buildings are therefore converted regularly as part of new rental agreements or rental agreement extensions so as to meet the tenants' requirements. 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. Risk can also be reduced by the selective disposal of properties that no longer fit in with the strategy of TLG IMMOBILIEN. Following the unification of the risk management system within the Group, the potential loss has been downgraded from medium to low and the probability of occurrence remained low as at the reporting date.

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 unexpected additional 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. The potential loss has been downgraded from high to medium in the context of the unification of the risk management system in the Group. In light of the findings from operating cost statements prepared by TLG IMMOBILIEN for the first time, the probability of occurrence has changed from low to high.

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 is medium and its probability of occurrence is negligible.

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. The potential loss has changed from medium to high due to ongoing construction measures, although the probability of occurrence remains 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 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. 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 and strict deadline management.

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 arises, it can have a negative impact on the net assets, cash flows and financial performance of the company.

If insufficient investments are made, this can have a negative impact on the net assets, cash flows and financial performance of the company as well as on its growth strategy. The probability of occurrence is still considered low and the potential loss is still considered medium.

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 represents 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 regularly and systematically evaluated by independent external experts in order to identify problematic developments 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 2018 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. This can significantly affect the net assets and cash flows of the company. TLG IMMOBILIEN can counter these risks by defining external management services and integration risks with clear processes. Comprehensive due diligence can minimise the likelihood of the statement of financial position requiring correction.

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

Financing
The strategy of TLG IMMOBILIEN is focused on further growth and as such will require additional loans in the 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 (e.g. with capital market measures). 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. These changes in the general conditions could 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 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. No significant covenants were breached in 2018.

Following the unification of the risk management system in the Group, the potential loss has been downgraded from medium in the previous year to low, although the probability of occurrence remains medium.

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 special 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 probability of occurrence and potential loss of the risk are considered medium as unexpected losses of liquidity cannot be ruled out.

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 low.

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 in an attractive working environment 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, in particular 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. Following the completion of the integration of WCM, the potential loss and probability of occurrence were downgraded from low and medium to negligible.

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. Therefore, the potential loss and probability of occurrence were downgraded from medium in the previous year to 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, risks from force majeure

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 organisationally, 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.

The potential loss remains very high due to factors including the partial provision of data from external service providers. Following the successful launch of the ERP system SAP S4 HANA, the probability of occurrence was downgraded from medium to low.

Due to the entry into force of the European General Data Protection Regulation (GDPR) on 25 May 2018, the potential loss of the data protection risk increased from negligible to very high on the basis of the maximum fines set out by the GDPR. The probability of occurrence is still 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 gradually been put in place as part of the ISMS in connection with the introduction of a new ERP system and are applied consistently.

Another risk is that force majeure (e.g. natural disasters, fire or burglars) could cause structural damage or disruptions and damage, destroy or steal office equipment, resources or documents – and the company is not sufficiently covered by its insurance. In order to counter this risk, the company actively implements fire and theft prevention measures at all business locations by means of secure access, alarms, regular data backups and security guards. As in the previous year, the risk is considered negligible as the company normally has sufficient insurance cover.

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 unification of the risk management system in the Group, the potential loss has been downgraded from medium to negligible and, in light of the dual-control principle which is applied to all transactions and the company's internal approval and control system, the probability of occurrence is still considered negligible. Employees are regularly trained in issues of compliance.

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 negligible 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 2018 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

TLG IMMOBILIEN has been able to expand its portfolio of commercial properties significantly with measures such as the takeover of WCM Beteiligungs- und Grundbesitz-AG, a company that operates primarily in Germany, and other attractive acquisitions in the reporting period, and establish itself as a leading commercial property company in Germany. Expanding the scope of its portfolio beyond its original geographical focal points will create new opportunities for TLG IMMOBILIEN. As an active portfolio manager, the company has an excellent network in the property market and possesses solid market expertise. The deliberate proximity of the company's sites to each regional market allows for better access to institutional and private market participants, tenants, 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 flexible organisational structure adapted to the strategic expansion of TLG IMMOBILIEN and maintaining its presence on site, the company is able to integrate newly acquired properties into its operational processes quickly and efficiently.

Due to the persistently low interest rates, new financing and refinancing opportunities alike are available at favourable rates. At the same time, opportunities to issue financial instruments such as bonds – making it possible to pursue a flexible growth strategy – can be created through an active dialogue with the market and high transparency with regard to investors and analysts.

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, for example by applying higher technological standards, which in turn can present new opportunities in terms of vacant space. Likewise, modernisation measures and renovations for tenants in the portfolio serve to increase client satisfaction and preserve the attractiveness of properties to the tenants. The long-term rental agreements in the portfolio of TLG IMMOBILIEN have an average remaining term of approx. 6.1 years.

Furthermore, some land could potentially be developed with building expansions or new buildings to add more space, which would increase the net income from letting activities of TLG IMMOBILIEN.

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

Although the German government was still forecasting growth of 1.8% for 2019 in autumn, the Federal Ministry for Economic Affairs and Energy (BMWI) lowered the forecast to 1.0% in January. As such, expectations concerning export growth have also declined to growth of 2.7% (previously 3.7%). Nevertheless, employment figures and private consumption expenditure are expected to grow at 0.9% and 1.3% respectively. Consequently, the outlook in the real estate investment market remains cautiously optimistic in spite of the growing political risks and the potential interest rate increase in 2019. In light of persistently low interest rates and high demand, the BMWI expects public and private investments to continue to increase significantly in 2019. However, the capacity bottlenecks in the construction sector are becoming exacerbated by the lively rate of construction activity and can be expected to lead to price increases. JLL expects a volume of transactions of EUR 55 bn for commercial properties and a total volume of around 10% lower than in the previous year.

Office property market

JLL forecasts 1.68 million sqm of completed office space in 2019, although it has already revised its own autumn 2018 forecast (of 1.8 million sqm) downwards. Additionally, the total rate of completion in the year ended was more than 28% lower than the forecast. In light of the high degree of capacity utilisation in the construction sector, the lack of qualified personnel and the long periods of time required to obtain permits, a significant percentage of the construction projects are also being delayed. Moreover, over 70% of the new space due to be completed in 2019 has already been rented out in advance. Consequently, the increase in rents can be expected to continue this year.

Retail property market

The textile and electronics retail segments in particular are still suffering from the growth of online retail turnover. According to JLL, the majority of the retail space that is becoming vacant was previously used by textile retailers and the market share of what is still the largest segment is continuing to decline. The growing vacuum can be expected to be filled by the expansion of large gastronomy/food and health & beauty chains which rely on a strong presence in city centres. Consumer confidence was steady as at the start of 2019. According to GfK, consumer expenditure can be expected to increase by 1.5% over the course of the year, provided that the economy and job market remain stable.

Hotel property market

The analysts at BNPPRE expect demand to remain high across the board in 2019. This will result in there being barely any difference between locations. Attractive means of entering the market usually find a buyer quickly. As such, construction and optimisation projects can be expected to remain attractive. In particular, the low level of supply in the portfolio segment had a slowing effect; the development of this segment should answer the question of whether the asset class will be able to reach the EUR 4 bn threshold again.

3.2.2 Expected business developments

Assuming that the German economy and property markets on which TLG IMMOBILIEN is active remain stable or experience positive growth, the company expects its performance to remain positive.

Therefore, the company will continue to operatively manage its property portfolio with a view to generating value. Unless any major unforeseen circumstances occur, the company expects property-related expenses that must be borne by the owner to develop in relation to rental income as in 2018.

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 2019 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 solid financing structure of the company and the historically low interest rates make it reasonable to expect TLG IMMOBILIEN to remain capable of obtaining debt at attractive rates in 2019. In line with the plans of the company, there will be little need to refinance in 2019; as a result, most of the debt that is expected to be obtained will be for the purposes of growth. TLG IMMOBILIEN intends to continue with its current approach to finance and expects a Net LTV of up to 45% (previous year 34.7%).

Taking into consideration the contractually secured acquisitions and disposals as at the end of 2018, TLG IMMOBILIEN expects its funds from operations (FFO) in the 2019 financial year to be between EUR 140 m and EUR 143 m (2018: EUR 134.0 m). This will make it possible to pay an attractive dividend to the shareholders. Potential acquisitions and disposals in 2019 could further increase or lower FFO for 2019.

TLG IMMOBILIEN expects the EPRA Net Asset Value, which is largely influenced by changes in the value of the property portfolio, to increase slightly by the end of the 2019 financial year. This will require the company to not incur any significant unforeseen expenses and the property markets 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 components of this management report, are available online at *https://ir.tlg.eu/corporategovernance* and *https://ir.wcm.de/en/#corporate-governance*. Pursuant to Sec. 317 (2) sentence 6 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).

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. Due to the resignation of Ms Elisabeth Talma Stheeman with effect from 29 January 2018 and the judicial appointment of Mr Stefan E. Kowski as a new member of the Supervisory Board, this target is currently not being met by the Supervisory Board.

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. Both 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%; neither may fall below this target before 30 June 2022. These targets were met in 2018.

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 in 2018.

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 effective 17 September 2018, Mr Klinck and Mr Overath were appointed as members of the Management Board and were given their employment contracts on 1 October 2018.

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 2017 in its meeting on 7 March 2017. It did the same for 2018 in its meeting on 21 March 2018.

The composition of the Management Board changed in 2018. The remuneration of Mr Finkbeiner and Mr Karoff, the previous members of the Management Board, is being taken into account proportionately up to 31 October 2018 and the remuneration of Mr Klinck and Mr Overath, the current members of the Management Board, is being taken into account proportionately from 1 October 2018 onwards.

in EUR k	Gerald Klinck	Jürgen Overath	Peter Finkbeiner	Niclas Karoff
Base remuneration	450	450	400	400
Short-term variable remuneration (STI)	250	250	250	250
Long-term variable remuneration (LTI)	300	300	400	400
Total remuneration	**1,000**	**1,000**	**1,050**	**1,050**

The current 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 benefit . 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.

Additionally, the company had taken out pension insurance and occupational accident insurance policies which provided benefits if a member of the Management Board is unable to work due to a disability and for his surviving dependants in the event of his death for both Mr Finkbeiner and Mr Karoff, the former members of the Management Board.

Short-term incentive (STI)

Every year, the former and current members of the Management Board 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 2018 financial year.

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

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 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.

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 made towards the targets.

Starting in the 2018 financial year, the LTI remuneration is paid in the form of virtual shares (performance shares) which are converted into cash remuneration and paid out as cash after the end of each LTI performance period and with consideration for the level of progress towards LTI targets.

The key parameters for the long-term incentive for the members of the Management Board are the development of the EPRA NAV per share (target NAV/share) and the development of the yield of the shares of the company (total shareholder return; TSR) 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 (TSR performance).

The Supervisory Board defines the target NAV/share for the performance period at the start of each financial year.

The parameters are weighted against one another in a ratio of 50% (the NAV/share factor) and 50% (the TSR performance factor).

At the start of each four-year period, the number of assigned virtual shares is calculated 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 long-term incentive is the product of the number of assigned virtual shares for the financial year and the share price as at the end of every fourth year plus the total dividends per share paid out during the LTI performance period and the performance factor for the LTI targets (the total LTI factor). The performance factor is based equally on progress for the NAV/share and the TSR 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, this equates to a performance of 0. If the TSR of the shares of the company performs at least 15% worse than the TSR of the reference index, the TSR performance factor will also be 0.

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 long-term incentive is capped at EUR k 750 (EUR k 800 for former members of the Management Board), yet is also capped in the sense that the total earnings of a member of the Management Board may not exceed EUR k 1,500 in a financial year with consideration for the basic remuneration and the short-term incentive.

The following virtual shares provided to the members of the Management Board in 2018:

Long-term incentive

2018 tranche	**Gerald Klinck[1]**	**Jürgen Overath[1]**
Settlement date	01/10/2018	01/10/2018
Number of virtual shares	3,434	3,434
Fair value as at the settlement date (EUR k)	93	93
Intrinsic value of the virtual shares as at 31/12/2018 (EUR k)	**130**	**130**

[1] Proportionate remuneration from 01/10/2018

With regard to the share-based payments, expenses of EUR k 257 (previous year EUR k 0) were recognised for Mr Klinck and expenses of EUR k 240 (previous year EUR k 0) were recognised for Mr Overath in the financial year. For the members of the Management Board who left the company in the financial year, expenses of EUR k 465 (previous year EUR k 259) were recognised for share-based payments to Mr Finkbeiner and expenses of EUR k 465 (previous year EUR k 259) were recognised for share-based payments to Mr Karoff.

Total remuneration for the Management Board in 2018 and 2017

In the 2018 and 2017 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received	**Gerald Klinck[1]**	**Jürgen Overath[1]**	**Peter Finkbeiner[2]**		**Niclas Karoff[2]**	
in EUR k	**2018**	**2018**	**2018**	**2017**	**2018**	**2017**
Fixed remuneration	112	112	333	300	333	300
Fringe benefits	21	71	40	87	26	30
SUBTOTAL of fixed remuneration	133	183	373	387	359	330
Short-term variable remuneration (STI)	0	0	300	260	300	260
Short-term variable remuneration (STI) in current year	0	0	250	0	250	0
Long-term variable remuneration (LTI)	0	0	1,857	0	1,857	0
Subtotal of variable remuneration	0	0	2,407	260	2,407	260
Total remuneration	**133**	**183**	**2,780**	**647**	**2,766**	**590**

[1] Proportionate remuneration from 01/10/2018
[2] Proportionate remuneration until 31/10/2018

Bonuses paid	Gerald Klinck[1]			Jürgen Overath[1]			Peter Finkbeiner[2]				Niclas Karoff[2]			
in EUR k	2018	2018 min.	2018 max.	2018	2018 min.	2018 max.	2018	2018 min.	2018 max.	2017	2018	2018 min.	2018 max.	2017
Fixed remuneration	112	112	112	112	112	112	333	333	333	300	333	333	333	300
Fringe benefits	71	71	71	71	71	71	40	40	40	87	26	26	26	30
Subtotal Fixed remuneration	183	183	183	183	183	183	373	373	373	387	359	359	359	330
Short-term variable remuneration (STI)	63	0	94	63	50	94	250	0	250	200	250	0	250	200
Long-term variable remuneration (LTI)	93	0	188	93	0	188	419	0	800	297	419	0	800	297
Subtotal of variable remuneration	156	0	282	156	50	282	669	0	1,050	497	669	0	1,050	497
Total remuneration	**339**	**183**	**465**	**339**	**233**	**465**	**1,042**	**373**	**1,423**	**884**	**1,028**	**359**	**1,409**	**827**

Total earnings from the company according to the German Commercial Code (HGB)	Gerald Klinck[1]	Jürgen Overath[1]	Peter Finkbeiner[2]		Niclas Karoff[2]	
in EUR k	2018	2018	2018	2017	2018	2017
Fixed remuneration	112	112	333	300	333	300
Fringe benefits	71	71	40	87	26	30
Subtotal of fixed remuneration	183	183	373	387	359	330
Short-term variable remuneration (STI)	63	63	250	260	250	260
Long-term variable remuneration (LTI)	93	93	145	0	145	0
Subtotal of variable remuneration	156	156	395	260	395	260
Total remuneration	**339**	**339**	**768**	**647**	**754**	**590**

[1] Proportionate remuneration from 01/10/2018
[2] Proportionate remuneration until 31/10/2018

Current pensions were paid to two former managing directors in 2017 and 2018. The expenses totalled EUR 0.153 m in 2017 and EUR 0.168 m in 2018. The provisions formed for the pensions amount to EUR 2.360 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).

Mr Finkbeiner and Mr Karoff each received payments of EUR 897 k in connection with the premature termination of their activity.

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 the 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 Michael Zahn) receives three times this amount and the Vice-chairperson (Dr Michael Bütter) 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 TEUR	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee
Michael Zahn	V	M[3]	V	
Dr. Michael Bütter	M		M	M
Frank D. Masuhr[1]				V
Dr. Claus Nolting	M[6]	M[6]		
Elisabeth Talma Stheeman[2]		M		
Sascha Hettrich[4]	M[7]	M[7]		V
Stefan E. Kowski[5]				
Helmut Ullrich		V	M	M

[1] Until 31 January 2018 [2] Until 29 January 2018 [3] From April 2018 [4] From March 2018 [5] From February 2018 [6] Until 31 December 2018
[7] From 1 January 2019 V = Vorsitzender M= Mitglied

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 2018 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]	120,000.00	15,000.00	7,500.00	15,000.00	0	28,500.00	178,500.00
Dr. Michael Bütter	60,000.00	7,500.00	0	7,500.00	7,500.00	15,675.00	98,175.00
Frank D. Masuhr[2]	3,333.33	0	0	0	1,250.00	870.83	5,454.17
Dr. Claus Nolting	40,000.00	7,500.00	10,000.00	0	0	10,925.00	68,425.00
Elisabeth Stheeman[3, 2]	3,333.33	0	833.33	0	0	0	4,166.67
Sascha Hettrich[4]	33,333.33	0	0	0	11,250.00	8,470.83	53,054.17
Stefan E. Kowski[3, 5]	36,666.67	0	0	0	0	0	36,666.67
Helmut Ullrich	40,000.00	0	20,000.00	7,500.00	7,500.00	14,250.00	89,250.00

[1] Proportionate at 9/12 for the audit committee; the total remuneration is limited to the maximum limit of EUR k 150 (net)
[2] Proportionate at 1/12; resigned in late January [3] Does not deduct VAT [4] Proportionate at 10/12; took over role in March
[5] Proportionate at 11/12; took over role in February

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 2018, the share capital was EUR 103,384,729.00, comprising 103,384,729 no-par value 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 2 January 2019, Prof. Dr. Gerhard Schmidt holds 16.01% of the voting rights of the company through his interest in the third-party company DIC Real Estate Investments GmbH & Co. Kommanditgesellschaft auf Aktien. On that date, the total number of voting rights was 103,355,228.

As reported on 12 December 2018, Amir Dayan/Maria Saveriadou hold 23.36% of the voting rights of the company through their interest in the third-party company Ouram Holding S.à r.l. On that date, the total number of voting rights was 103,355,228.

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 *https://ir.tlg.eu/voting-rights*.

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 consent 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.

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 3,644,092.00 by the issuance of up to 3,644,092 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.

More details on the authorised and contingent capital can be found in the Articles of Association of the company.

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

On 25 September 2014, the general meeting of TLG IMMOBILIEN AG authorised the Management Board to acquire treasury shares up to the value of 10% of the share capital as at the date of the resolution. This authorisation is effective until 24 September 2019. In the interests of equality, at the discretion of the Management Board the shares can be acquired on the stock exchange or by means of either a public purchase offer or a public invitation to tender sent to all shareholders.

Furthermore, the Management Board was authorised to utilise the shares acquired in this manner – subject to other conditions – as follows: (i) to withdraw shares, (ii) to resell the shares on the stock exchange, (iii) as a subscription offer to the shareholders, (iv) to sell the shares in a way other than via the stock exchange or in the form of an offer to all shareholders if the acquired shares are sold for cash at a price that is not significantly lower than the quoted price in the sense of Sec. 186 (3) sentence 4 AktG.

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.

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, 6 March 2019

Gerald Klinck	Jürgen Overath
Chief Financial Officer (CFO)	Chief Operating Officer (COO)

7. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

In addition to the report on the TLG IMMOBILIEN Group, you can find information on the development of TLG IMMOBILIEN below. TLG IMMOBILIEN AG is the parent company of the TLG IMMOBILIEN Group and is based in Berlin.

As a real estate company with a property portfolio, the business model and the corporate strategy of TLG IMMOBILIEN are based on the following pillars:

- **Portfolio management**
  Portfolio management forms the strategic orientation of the portfolio with regard to regional markets and locations, individual asset classes and general trends in the property market. It also monitors the development of the portfolio and the valuation of properties.

- **Asset management**
  Asset management identifies the most economical long-term strategy for every property and is responsible for implementing it. Suitable instruments are selected with regard to renting, conversion and modernisation measures in order to generate the highest possible value for every single property.

- **Transaction management**
  With its years of expertise, TLG IMMOBILIEN is very well connected in its core markets and operates in the transaction market with an experienced team. Acquisition and disposal processes are controlled by the internal transaction management team from the identification of potential transaction partners to the due diligence phase and contractual negotiations.

- **Property management**
  Property management is responsible for ongoing commercial property management. This entails maintaining relations with tenants and managing service providers in the property. The property management team is decentralised so that it can be present on site for tenants and properties.

Besides the efficient operational management of the high-quality property portfolio, the objective of the business activities is to augment the portfolio through measures designed to increase its value such as investments in properties in the portfolio, the selective development of promising plots of land and acquisitions and disposals.

Investments in properties in the form of modernisation or conversion measures and selected new builds provide an opportunity to increase value significantly which, given the development of property prices in many core markets of TLG, would be almost impossible to realise on the same scale in any other way. Targeted acquisition of properties with potential for increased rents or moderate vacancy rates and the subsequent active asset management generates the potential to increase value by improving the letting situation. Besides growth through acquisitions, non-strategic properties will continue to be sold in order to improve the risk-return profile of the overall portfolio and ensure that the portfolio remains highly profitable in the long term.

The annual financial statements of TLG IMMOBILIEN AG are prepared in accordance with GAAP in Germany. The consolidated financial statements meet the International Financial Reporting Standards (IFRS). As a result, the accounting and measurement methods differ. These differences primarily concern properties, reserves, financial instruments, revenue and deferred taxes.

The key Group figures according to IFRSs – FFO, Net LTV and EPRA NAV – are the key performance indicators of TLG IMMOBILIEN AG.

7.1 SEPARATE FINANCIAL STATEMENTS – FINANCIAL PERFORMANCE

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

	01/2018–12/2018		01/2017–12/2017		Change	
	EUR m	%	EUR m	%	EUR m	%
Revenue	210.7	100	249.0	97	– 38.4	– 15
Change in portfolio	0	0	8.0	3	– 8.0	– 99
Total	**210.7**	**100**	**257.0**	**100**	**– 46.3**	**– 18**
Operating expenses	161.3	77	176.5	69	– 15.2	– 9
Betriebsergebnis	**49.4**	**23**	**80.5**	**31**	**– 31.1**	**– 39**
Operating profit	8.1	0	1.0	0	7.2	728
Financial result	– 20.1	0	–47.2	0	27.1	– 57
Other operative effects	1.4	0	1.3	0	0.1	8
Operative result	**38.8**	**0**	**35.6**	**0**	**3.2**	**9**
Non-operative result	– 50.5	0	5.7	0	– 56.2	– 982
Earnings before taxes	**– 11.7**	**0**	**41.3**	**0**	**– 53.0**	**– 128**
Income taxes	8.0	0	–55.6	0	63.6	– 114
Annual profit	**– 19.7**	**0**	**96.8**	**0**	**– 116.5**	**– 120**

Despite operating earnings of EUR 38.8 m (previous year EUR 35.5 m), the 2018 financial year ended with an annual deficit of EUR 19.7 m.

The negative change in earnings for the year compared to the previous year was largely due to the write-downs of financial assets totalling EUR 59.7 m in the current financial year and income from income taxes of EUR 55.6 m recognised in 2017 in connection with the audit for 2012 to 2015 and the resulting tax loss carryforwards. The improved net financial and investment income compared to the previous year had the opposite effect.

With earnings before tax of EUR –11.7 m which were lower than in the previous year, the forecast in the 2017 annual report was not met. This was due primarily to the higher non-operating income, which was significantly negative compared to the previous year.

The decrease in revenue was due to a lower volume of sales in 2018 and therefore EUR 58.7 m lower revenue from disposals. The EUR 16.3 m higher proceeds from letting activities and higher proceeds from services for affiliated companies had the opposite effect.

Compared to the previous year, operating expenses decreased by EUR 15.2 m, largely due to significantly lower write-downs in connection with disposals of properties. The higher personnel expenses due to the higher number of employees, special payments in connection with the premature termination of the contracts of the members of the Management Board and higher depreciation and amortisation had the opposite effect. The expenses related to letting activities are consistent with the change in revenue from operational management.

Operating profits decreased by EUR 31.1 m compared to the previous year, due primarily to fewer disposals of properties.

The net income from investments increased to EUR 8.1 m due primarily to higher income (EUR 4.2 m) and lower expenses (EUR 5.7 m) from profit transfers and lower income from investments (EUR 2.8 m).

Net financial income improved by EUR 27.1 m in the 2018 financial year, due primarily to lower repayment fees for refinancing measures and in turn lower interest expenses than in the previous year. Additionally, interest income from affiliated companies increased by EUR 4.9 m.

Income taxes (EUR 8.0 m) comprise ongoing income taxes (EUR 2.8 m), tax income from prior periods (EUR −0.4 m) and deferred taxes (EUR 5.6 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	01/2018 – 12/2018	01/2017 – 12/2017	Change
Cash flow from operating activities	100.2	48.2	52.0
Cash flow from investing activities	– 123.4	– 338.1	214.7
Cash flow from financing activities	– 41.4	411.8	– 453.2
Change in cash and cash equivalents	– 64.6	121.9	– 186.5
Cash and cash equivalents at the beginning of the financial year	185.7	63.8	121.9
Cash and cash equivalents at the end of the financial year	**121.1**	**185.7**	**– 64.6**

The cash flow from operating activities was EUR 100.2 m in 2018 and therefore EUR 52.0 m higher than in the previous year. This was due primarily to higher net cash flows from letting activities and lower interest payments on loans.

The decrease in the negative cash flow from investing activities of EUR 214.7 m to EUR 123.4 m essentially reflects the decreased scale of cash paid for investments in newly acquired and existing properties. A total of EUR 77.7 m was invested in properties and EUR 64.1 m in affiliated companies.

The proceeds from the disposal of properties decreased by EUR 68.3 m due to a lower volume of disposals.

The negative cash flow from financing activities of EUR 41.4 m is due to the payment of a dividend of EUR 84.6 m to the shareholders. The cash received for the second tranche of a loan of EUR 56.0 m had the opposite effect.

Overall, due to the aforementioned items, cash and cash equivalents decreased by EUR 64.6 m to EUR 121.1 m. Cash and cash equivalents consist entirely of liquid funds.

The liquidity of the company was not in question at any point in the 2018 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:

	31/12/2018		31/12/2017		Change	
	EUR m	%	EUR m	%	EUR m	%
Fixed assets	2,508.5	93.6	2,449.2	91.4	59.3	2.4
Non-current receivables	0.1	0.0	0.2	0.0	– 0.1	– 50.0
Inventories	27.9	1.0	28.1	1.0	– 0.2	– 0.7
Current receivables	15.3	0.6	9.0	0.3	6.3	70.0
Cash and cash equivalents	121.1	4.5	185.7	6.9	– 64.6	– 34.8
Other assets	6.1	0.2	6.6	0.2	– 0.5	– 7.6
Total assets	**2,679.0**	**100.0**	**2,678.8**	**100.0**	**0.2**	**0.0**
Equity[1]	1,273.7	47.5	1,346.8	50.3	– 73.1	– 5.4
Non-current liabilities	1,247.0	46.6	1,246.7	46.5	0.3	0.0
Current liabilities	158.3	5.9	85.3	3.2	73.0	85.6
Total equity and liabilities	**2,679.0**	**100.0**	**2,678.8**	**100.0**	**0.2**	**0.0**

[1] Including the special item for investment subsidies and grants of EUR 10.7 m (previous year EUR 11.2 m)

The assets side is dominated by fixed assets. The carrying amount of the fixed assets increased by EUR 59.3 m to EUR 2,508.5 m.

In the 2018 financial year, a total of EUR 177.5 m was added to the fixed assets through the acquisition of properties and of other affiliates, although this was offset by write-downs totalling EUR 15.6 m and depreciation, amortisation and write-downs (EUR 51.4 m) as well as write-downs of financial assets (EUR 59.7 m).

The current receivables increased by EUR 6.3 m, due primarily to receivables from affiliated companies under profit transfer agreements.

Compared to the previous year, cash has decreased by EUR 64.6 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 47.5% (previous year 50.3%) and by non-current liabilities at 46.6% (previous year 46.5%), with the remainder attributable to current liabilities.

Compared to the previous year, current liabilities have increased slightly, due primarily to reclassifications within liabilities due to financial institutions due to maturity dates.

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

Assuming that the German economy and property markets on which TLG IMMOBILIEN AG is active remain stable or experience positive growth, the company expects its performance to remain positive.

Compared to 2018, operating earnings are expected to be slightly higher in 2019 and earnings before taxes are expected to be significantly higher in 2019.

Berlin, 6 March 2019

Gerald Klinck	Jürgen Overath
Chief Financial Officer (CFO)	Chief Operating Officer (COO)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2018

in EUR k	Reference	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Rental income		223,886	168,310
Income from recharged operating costs		45,524	37,693
Income from other goods and services		2,033	2,273
Income from letting activities		**271,443**	**208,276**
Expenses from operating costs[1]		– 60,595	– 41,570
Maintenance expenses[1]		– 11,283	– 9,025
Other services[1]		– 2,839	– 2,777
Expenses relating to letting activities		**– 74,717**	**– 53,372**
Net operating income from letting activities	F.1	**196,726**	**154,904**
Proceeds from the disposal of properties		25,025	83,716
Carrying amount of properties disposed of		– 25,025	– 81,156
Change in value of properties held for sale		7,921	7,827
Expenses from the disposal of properties		– 88	– 10
Result from disposal of investment property[2]	F.2	**7,833**	**10,377**
Result from the remeasurement of investment property[2]	E.1	**552,884**	**210,782**
Other operating income	F.4	1,996	1,909
Personnel expenses	F.5	– 16,505	– 12,001
Depreciation and amortisation	F.6	– 165,755	– 466
Other operating expenses[1]	F.7	– 16,128	– 19,342
Earnings before interest and taxes (EBIT)		**561,051**	**346,163**
Financial income	F.8	628	117
Financial expenses	F.8	– 32,109	– 44,617
Result from the remeasurement of derivative financial instruments	F.9	– 7,904	5,664
Earnings before taxes		521,666	307,327
Income taxes	F.10	– 210,720	– 22,955
Net income		**310,946**	**284,373**
Other comprehensive income (OCI):	E.9		
thereof will not be reclassified to profit or loss			
Actuarial gains and losses after taxes		– 251	214
Thereof will be classified to profit or loss			
Gain/loss from remeasurement of derivative financial instruments in hedging relationships, net of taxes		740	7,993
Total comprehensive income for the year		**311,435**	**292,580**
Of the net income, the following is attributable to:			
Non-controlling interests		3,019	576
The shareholders of the parent company		307,928	283,797
Earnings per share (basic) in EUR	F.11	**2.99**	**3.56**
Earnings per share (diluted) in EUR	F.11	**2.99**	**3.56**
Of the total comprehensive income for the year, the following is attributable to:			
Non-controlling interests		3,019	576
The shareholders of the parent company		308,416	292,004

[1] Comparative figures from previous year have been adjusted. See also the disclosures in section F.1.
[2] Recognition has changed compared to the previous year. See also the disclosures in section F.2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

Assets

in EUR k	Reference	31/12/2018	31/12/2017
A) Non-current assets		**4,112,755**	**3,604,369**
Investment property	E.1	4,067,527	3,383,259
Advance payments on investment property		23	17,525
Property, plant and equipment	E.2	8,933	8,245
Intangible assets	E.2	2,590	165,923
Other non-current financial assets	E.3	13,517	14,914
Other assets	E.5	20,165	14,503
B) Current assets		**208,092**	**231,379**
Inventories	E.6	737	762
Trade receivables	E.4	14,864	10,188
Receivables from income taxes		1,827	1,913
Other current financial assets	E.3	1,129	2,016
Other receivables and assets	E.5	2,562	5,326
Cash and cash equivalents	E.7	153,893	201,476
Non-current assets classified as held for sale	E.8	33,080	9,698
Total assets		**4,320,847**	**3,835,748**

Equity and liabilities

in EUR k	Reference	31/12/2018	31/12/2017
A) Equity	**E.9**	**2,157,239**	**1,936,560**
Subscribed capital		103,385	102,029
Capital reserves		1,011,381	1,061,087
Retained earnings		1,023,751	739,603
Other reserves		– 4,593	– 5,083
Equity attributable to shareholders of the parent company		**2,133,924**	**1,897,636**
Non-controlling interests		23,315	38,924
B) Liabilities		**2,163,608**	**1,899,188**
I.) Non-current liabilities		**1,970,099**	**1,829,195**
Non-current liabilities due to financial institutions	E.10	1,046,342	1,120,901
Corporate bonds	E.11	396,487	395,975
Pension provisions	E.12	8,019	7,858
Non-current derivative financial instruments	H.1	10,254	4,924
Other non-current liabilities	E.15	28,508	26,801
Deferred tax liabilities	E.14	480,489	272,736
II.) Current liabilities		**193,509**	**69,993**
Current liabilities due to financial institutions	E.10	136,613	24,816
Trade payables	E.15	35,389	17,169
Other current provisions	E.13	4,451	4,049
Tax liabilities		2,743	1,376
Other current liabilities	E.15	14,313	22,583
Total equity and liabilities		**4,320,847**	**3,835,748**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2018

in EUR k	Reference	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
1. Cash flow from operating activities			
Net income before taxes		521,666	307,327
Depreciation of property, plant and equipment and amortisation of intangible assets	D.4, E.2	165,755	465
Result from the remeasurement of investment property	E.1, F.3	– 552,884	– 210,782
Result from the remeasurement of derivative financial instruments	F.9	7,904	– 5,664
Increase/decrease (–) in provisions	E.13	563	– 5,217
Change in value of properties held for sale		– 7,921	– 7,827
Other non-cash income/expenses		– 3,549	147
Gain (–)/loss from disposal of property, plant and equipment and intangible assets		370	– 2,681
Increase (–)/decrease in inventories	E.6	25	341
Financial income	F.8	– 628	– 425
Financial expenses	F.8	32,109	44,583
Increase (–)/decrease in trade receivables and other assets	E.4/5	– 5,394	– 1,259
Increase (–)/decrease in trade payables and other liabilities		3,859	– 18,330
Cash flow from operating activities		**161,875**	**100,679**
Interest received		628	426
Interest paid		– 30,667	– 48,762
Income tax paid/received		– 1,824	– 6,291
Net cash flow from operating activities		**130,011**	**46,052**
2. Cash flow from investing activities			
Cash received from disposals of investment property	G	25,025	87,597
Cash received from disposals of property, plant and equipment		193	– 83
Cash paid for acquisitions of investment property	E.1, G	– 153,272	– 241,767
Cash paid for acquisitions of property, plant and equipment		– 280	– 1,212
Cash paid for investments in intangible assets		– 1,417	– 961
Cash received from corporate acquisitions less cash received	C.2	0	27,789
Cash flow from investing activities		**– 129,751**	**– 128,637**
3. Cash flow from financing activities			
Cash received from the issuance of corporate bonds	E.11	0	398,924
Cash received from equity contributions	E.9	0	257,670
Dividend payment	E.9	– 84,645	– 59,340
Cash received from bank loans	E.10	56,202	220,098
Repayments of bank loans	E.10	– 19,400	– 601,707
Cash flow from financing activities		**– 47,843**	**215,646**
4. Cash and cash equivalents at end of period			
Net change in cash and cash equivalents (subtotal of 1–3)		– 47,583	133,060
Cash and cash equivalents at beginning of period		201,476	68,415
Cash and cash equivalents at end of period		**153,893**	**201,476**
5. Composition of cash and cash equivalents			
Cash		153,893	201,476
Cash and cash equivalents at end of period		**153,893**	**201,476**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2018

in EUR k	Subscribed capital	Capital reserves	Retained earnings	Other comprehensive income (OCI) Reserve for hedge accounting	Other comprehensive income (OCI) Actuarial gains/ losses	Non-controlling interests	Equity
01/01/2017	**67,432**	**440,267**	**515,094**	**– 11,128**	**– 2,162**	**0**	**1,009,503**
Net income	0	0	283,797	0	0	576	284,373
Other comprehensive income (OCI)	0	0	0	7,993	214	0	8,207
Total comprehensive income for the year	**0**	**0**	**283,797**	**7,993**	**214**	**576**	**292,580**
Change in scope of consolidation	0	0	52	0	0	38,348	38,400
Dividend payment	0	0	– 59,340	0	0	0	– 59,340
Share capital increase in exchange for cash contributions	14,161	247,948	0	0	0	0	262,109
Share capital increase in exchange for contributions in kind	20,436	376,630	0	0	0	0	397,066
Transaction costs associated with the share capital increase, after taxes	0	– 4,439	0	0	0	0	– 4,439
Capital contribution in connection with share-based payments	0	681	0	0	0	0	681
Change during the period	**34,597**	**620,820**	**224,509**	**7,993**	**214**	**38,924**	**927,057**
31/12/2017	**102,029**	**1,061,087**	**739,603**	**– 3,135**	**– 1,948**	**38,924**	**1,936,560**
01/01/2018	**102,029**	**1,061,087**	**739,603**	**– 3,135**	**– 1,948**	**38,924**	**1,936,560**
Net income	0	0	307,928	0	0	3,019	310,946
Other comprehensive income (OCI)	0	0	0	740	– 251	0	489
Total comprehensive income for the year	**0**	**0**	**307,928**	**740**	**– 251**	**3,019**	**311,435**
Dividend payment	0	0	– 84,645	0	0	0	– 84,645
Guaranteed dividend	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	– 15,885	0
Capital contributions/redemptions in connection with share-based payments	0	– 2,784	0	0	0	0	– 2,784
Withdrawal from capital reserves	0	– 77,306	0	0	0	0	– 77,306
Allocation to retained earnings	0	0	77,306	0	0	0	77,306
Other	0	0	– 585	0	0	– 116	– 701
Change during the period	**1,356**	**– 49,706**	**284,149**	**740**	**– 251**	**– 15,609**	**220,679**
31/12/2018	**103,385**	**1,011,381**	**1,023,752**	**– 2,394**	**– 2,199**	**23,315**	**2,157,239**

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 2018 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 6 March 2019. The Supervisory Board is expected to approve the consolidated financial statements in its meeting on 20 March 2019.

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 9 FINANCIAL INSTRUMENTS

The International Accounting Standards Board (IASB) published the final version of IFRS 9 (Financial Instruments) in July 2014, replacing IAS 39 (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9. IFRS 9 merges the three project phases – classification and measurement, impairment and recognition of hedges – for recognising financial instruments. This standard was adopted by the EU on 22 November 2016. IFRS 9 applies to financial years starting on or after 1 January 2018.

TLG IMMOBILIEN AG has been applying IFRS 9 since 1 January 2018, the date on which the new standard came into effect. The comparison periods have not been adjusted. A qualitative and quantitative assessment of the effects produced the following results:

- **Classification and measurement:** The new classification and measurement regulations have not had a quantitative effect on TLG IMMOBILIEN AG as the instruments recognised at amortised cost in accordance with IAS 39 are also allocated to the "amortised cost" category under IFRS 9. Derivative financial instruments that are not used for hedge accounting do not undergo any changes from the transition from IAS 39 to IFRS 9.

- **Impairment:** The financial assets of TLG IMMOBILIEN AG that are measured at amortised cost fall under the new impairment regulations of IFRS 9; the expected credit loss model which replaces the incurred loss model of IAS 39. TLG IMMOBILIEN AG applies the simplified impairment approach to trade receivables, whereby a risk provision in the amount of the expected losses must be recognised over the remaining term for all instruments, regardless of their credit quality. The general impairment method of IFRS 9 is applied to the other financial instruments to which the expected credit loss model applies.

- **Recognition of hedges:** TLG IMMOBILIEN AG does not currently carry out hedge accounting, therefore the initial application of IFRS 9 has not had any effect in this context.

In summary, the effects of the application of IFRS 9 for the first time have proved negligible for TLG IMMOBILIEN AG.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The International Accounting Standards Board published the final version of IFRS 15 (Revenue from Contracts with Customers) in May 2014.

IFRS 15 defines a comprehensive framework for determining if, to what extent and at what point revenue must be recognised. It replaces existing guidelines on recognising revenue including IAS 18 (Revenue), IAS 11 (Construction Contracts), IFRIC 13 (Customer Loyalty Programmes) and IFRIC 15 (Agreements for the Construction of Real Estate).

IFRS 15 becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2018, although early adoption is permitted.

TLG IMMOBILIEN AG has been applying IFRS 15 since 1 January 2018, the date on which the new standard came into effect, on the basis of the modified retrospective method. The comparison periods have not been adjusted. The necessity of providing more comprehensive disclosures on the revenue of the Group from contracts with customers notwithstanding, the initial application did not result in any changes in the financial statements overall.

The Group generates revenue in the following fields:

- Rental income
- Income from operating costs
- Proceeds from property disposals

Additionally, the company recognises a negligible amount of other income. Essentially, this income is attributable to recharging to third parties, insurance reimbursements and other reimbursements allocated to net operating income from letting activities.

The application of IFRS 15 for the first time has not affected rental income as it is subject to lease agreements in the sense of IAS 17 and (in the future) IFRS 16.

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. In accordance with IFRS 15, all other operating costs must be recognised. In this regard, the company believes that, overall, it has taken on the role of principal for the other types of operating costs as the inventory risk is always borne by TLG IMMOBILIEN, especially in the event of vacancies.

In rare cases in the past, TLG IMMOBILIEN has also agreed to contingent purchase price payments when disposing of properties. Such agreements might also be concluded in the future. Due to a lack of experience from similar transactions and various relevant criteria in the agreements in question, the date and amount of the recognition of these proceeds are a decision to be made from case to case on the basis of the criteria set out by IFRS 15.

Additionally, please refer to section D.19.

B.2 NEW ACCOUNTING STANDARDS

PUBLISHED IFRS WHOSE APPLICATION IS NOT YET OBLIGATORY

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

EU endorsement	Standards/ Interpretations	Content	Applicable to financial years from/after	Probable effects
Not yet endorsed	IFRS 17	New standard: "Insurance Contracts"	01/01/2021	None
Not yet endorsed	Amendments to IFRS 3	Business combinations; definition of a business	01/01/2020	None
20/03/2018	Amendments to IFRS 9	Prepayment features with negative compensation	01/01/2019	None
Not yet endorsed	Amendments to IAS 1 and IAS 8	Definition of material	01/01/2020	None
Not yet endorsed	Amendments to IAS 19	Plan amendment, curtailment or settlement	01/01/2019	None
Not yet endorsed	Amendments to IAS 28	Long-term interests in associates and joint ventures	01/01/2019	None
Not yet endorsed	Annual improvements project	Improvements to IFRS 2015-2017 Cycle	01/01/2019	None
23/10/2018	IFRIC 23	Uncertainty over income tax treatments	01/01/2019	Currently none

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 requiring lessees to recognise assets (for the right of use) and liabilities for all leases unless the lease term is twelve months or less. This means that leases which were not previously recognised must now be recognised in a statement of financial position – largely similar to the current recognition of financial leases.

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.

Additionally, the disclosure obligations of lessees and lessors have become significantly more extensive in IFRS 16 compared to IAS 17. The purpose of the disclosure obligations is to provide readers of the financial statements with information that gives them a better understanding of the effects leases have on the net assets, cash flows and financial performance.

The standard applies to the first reporting period of a financial year starting on or after 1 January 2019. The Group intends to apply the standard from 1 January 2019 onwards on the basis of the modified retrospective method.

Following a preliminary assessment taking its existing agreements as a lessee into account, the company does not expect any significant changes. The company expects to have to recognise up to EUR 4 m in assets and liabilities by 1 January 2019 and up to EUR k 500 in depreciation and amortisation in 2019 as a result. Until now, these costs have been recognised in various items of expenditure.

Costs incurred in connection with leases are incurred in order to successfully concluded rental agreements (especially commission for brokers). Such costs are currently spread over the term of the rental agreement, and will continue to be in accordance with IFRS 16.

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 were 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 from the time the following conditions have been cumulatively fulfilled for TLG IMMOBILIEN AG:

(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.

Inclusion in the consolidated financial statements ends as soon as the parent company no longer has control.

The financial statements of the subsidiaries are prepared using uniform accounting and measurement methods as the financial statements 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 using the acquisition method 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 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.

All intra-Group receivables and payables and income and expenses, as well as profit and loss from intra-Group transactions, are eliminated.

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

C.2 CHANGES IN THE GROUP

Number of fully consolidated subsidiaries	2018	2017
As at 01/01	**52**	**9**
Additions	2	46
Disposals	0	−3
As at 31/12	**54**	**52**

TLG HH1 GmbH & Co. KG, Berlin was established in the 2018 financial year in order to expand operations. Additionally, control was gained over Trinity Projektentwicklungsgesellschaft mbH, Berlin in the 2018 financial year. The purchase price of EUR k 27.5 which was paid in cash reflects the assets that were acquired.

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

C.3 MERGERS

As part of a public takeover offer on 6 October 2017, TLG IMMOBILIEN acquired the majority of the shares of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft. The transaction was an acquisition in the sense of IFRS 3.

The purchase price allocation in the consolidated financial statements for the 2017 financial year was essentially preliminary for the following items, as not all matters could be resolved completely before the preparation of the IFRS consolidated financial statements of the TLG IMMOBILIEN Group:

- Legal disputes
- Operating costs
- Property measurement
- Minorities
- Contingent liabilities
- Deferred taxes

In the 2018 financial year, in accordance with IFRS 3.45, the purchase price was divided within the prescribed twelve months. The items marked as preliminary at the time have been adopted as they were as follows.

in EUR m	06/10/2017
Investment property	800.1
Other non-current assets	11.0
Trade receivables	1.7
Other receivables and current assets	3.7
Cash and cash equivalents	27.8
Total assets	**844.3**
Non-current liabilities	480.5
Provisions	7.1
Deferred tax liabilities	32.0
Trade payables	8.6
Other current liabilities	44.3
Total liabilities	**572.4**
Acquired net assets	**271.9**
Non-controlling interests (14.1%)	38.4
Acquired net assets of TLG IMMOBILIEN	**233.5**
Consideration for the acquisition of the shares	397.1
Goodwill according to the partial goodwill method	**163.5**

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) 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 measurement of the fair value of the investment properties was carried out on the basis of property valuations (not including the property portfolio acquired from WCM) performed by Savills Advisory Services Germany GmbH & Co. KG at the end of 2018/beginning of 2019 as well as the end of 2017/beginning of 2018 as at 31 December 2017 and 31 December 2018 respectively. The properties acquired from WCM were valued by Cushman & Wakefield LLP at the end of 2018/beginning of 2019 and at the end of 2017/beginning of 2018 as at 31 December 2017 and 31 December 2018.

As investment properties, development projects are measured at their fair values so far as the fair value can be reliable measured. The fair value of properties can usually be determined when building permits are obtained.

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 were 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.

The valuation of undeveloped plots of land was carried out using the comparable value method with consideration for official land values of the local property value committees. In specific cases in which the potential use is guaranteed, the residual value method was also used to check the plausibility of land values.

Properties with negative net cash flows (e.g. continuously vacant properties) were valued using the liquidation value method, as were underused properties if their utilisation was guaranteed. The value of the land was derived in the same way as undeveloped plots of land and additional removal costs and residual net income have been taken into consideration.

Due to the limited availability of data and valuation parameters directly observable on the market, the complexity of property valuation as well as the degree of specificity 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 were 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

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 are carried uniformly across the Group pursuant to the following useful lives:

Useful life of property, plant and equipment in years	2018	2017
Owner-occupied properties	50 – 60	50 – 60
Technical equipment and machinery	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.

The 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. See section D.4 for details on the premise and execution of the impairment test by TLG IMMOBILIEN.

D.4 IMPAIRMENTS OF NON-FINANCIAL ASSETS

In accordance with IAS 36, the Group carries out annual tests on intangible assets and property, plant and equipment to see whether or not unscheduled depreciation is necessary. These tests determine if there are indicators of a possible impairment. If such indicators exist, the recoverable amount is calculated for the asset in question. This corresponds to the higher of the fair value less costs of disposal 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, it was not necessary to carry out an impairment test on property, plant and equipment or intangible assets with a certain useful life as no indicators of impairment existed.

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 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 zero.

In the 2018 financial year, the groups of cash-generating units WCM and TLG IMMOBILIEN that were initially formed provisionally in 2017 were merged into a single cash-generating unit as, due to the smooth integration of WCM into the organisational structure of TLG IMMOBILIEN, the management, control and administrative procedures are now identical and the Group is being led holistically.

On 6 October 2018, a routine impairment test was carried out on the goodwill derived from the acquisition of WCM in 2017 and recognised in the amount of EUR 163.5 m. No impairment was determined.

In order to harmonise with the internal planning processes, the impairment test has been moved to 31 December of each year on a permanent basis and as such, another impairment test had to be carried out on the goodwill by 31 December 2018.

Prior to the impairment test, the carrying amount of the cash-generating unit as at 31 December 2018 was around EUR 3,878 m (previous year EUR 3,081 m).

The impairment test was carried out on the basis of the fair value of the cash-generating unit less disposal costs. The net disposal value was derived from estimated future cash flows. These are based on a ten-year detailed planning phase of TLG IMMOBILIEN AG and a related accumulated value. In particular, the estimates are based on contractually fixed cash flows, planned investments, experience from previous years and external forecasts regarding the development of the property market.

A sustainable annual EBITDA increase of 1.0% – which TLG IMMOBILIEN AG believes will not exceed the forecast average market growth rate – was assumed in order to estimate the accumulated value for the development of the net cash flows after ten years. Additionally, the investments were adjusted to a level that guarantees the sustainable maintenance and modernisation of the properties in the portfolio.

Company-specific weighted capital costs (the “after-tax WACC”) of 3.5% were used to determine the net disposal value. The after-tax interest rate equates to an input tax interest rate of 3.9%. Disposal costs of 1.0% were assumed.

Applying these measurement parameters as at 31 December 2018 resulted in a need to fully amortise EUR k 164,724 the goodwill recognised up to that point, including the EUR 1.2 m in goodwill from TLG FAB from its initial consolidation which is included in the depreciation, amortisation and write-downs for the financial year.

Essentially, the impairment loss is due the fact that the increase in the carrying amount of the CGU resulting from the increase in the value of the properties in the fourth quarter was not balanced out by any increase in the recoverable amount.

D.5 OTHER FINANCIAL ASSETS

Generally, the Group accounts for financial assets 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

Leased assets, which are the economic property of the TLG IMMOBILIEN Group (finance leases in the sense of IAS 17), are capitalised under fixed assets at the lower of the present value of the lease instalments or the fair value of the leased property and are subject to straight-line depreciation. The depreciation period is the shorter of the term of the lease or economic useful life.

Whenever ownership of the asset transfers to TLG IMMOBILIEN at the end of the contractual term, the depreciation period corresponds to the useful life. A liability is recognised in the amount of the present value of the payment obligations arising from the future lease instalments. In subsequent periods, it is reduced by the redemption component in the lease instalments.

Leases where the TLG IMMOBILIEN Group has no economic ownership are categorised as operating leases. 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

Under IAS 17, 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.

In accordance with IAS 39, past experience and individual risk evaluations are used to factor in potential risks of default by means of reasonable allowances with consideration for the expected net cash flows.

IFRS 9 replaces the current incurred loss model of IAS 39 with the expected credit loss model. In order to determine expected credit losses in trade receivables and other receivables from tenants, the Group applies the simplified impairment model of IFRS 9. According to the simplified approach, changes to the credit risk are not identified. Instead, a loss allowance for the lifetime expected credit losses is recognised upon initial recognition and on every subsequent reporting date. IFRS 9 defines lifetime expected credit losses as the expected credit losses that result from all possible default events over the expected life of the financial instrument.

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 together with the planned sale are a component of the disposal group or discontinued operation, and are also 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 in full 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 under 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 payment 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.

See section H.10 and the Remuneration Report in the management report for a description of the LTI scheme.

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 a rate, before taxes, which reflects the current market expectations as well as the risks specific to the 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 or IAS 39 in the previous year.

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 2018 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.

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 and operational management rights, as well as the power of disposal, have transferred to the purchaser. Turnover is not realised as long as there are still major performance obligations, yield guarantees or a right to return on the part of the purchaser.

Operating expenses are recognised through net loss when the services are 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 for, 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. The grants are recognised pro rata by means of a reduced depreciation amount over the useful life of the asset, provided that the asset 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.

However, the inherent uncertainty of these assumptions and estimates could 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.

- 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.

- Goodwill impairment test: In order to determine whether or not goodwill is impaired, it is necessary to calculate the value in use of the cash-generating unit to which the goodwill has been allocated. The calculation of the value in use requires the estimation of future cash flows from the cash-generating unit as well as a suitable discount rate for the calculation of present value. If the actual expected future cash flows prove to be lower than previously estimated or the discount rates prove to be higher than previously estimated, a write-down might be required. Please see section D.4 for more details.

Likewise, please see section E.1.

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.

- 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 operating cost accounts 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, a single reportable segment which encompasses the operative activities of the Group was identified. Reports on this segment are regularly submitted to the main decision-makers. The main decision-makers only determine the allocation of resources for this one segment and are responsible for monitoring its profitability. The main decision-maker of TLG IMMOBILIEN AG is the Management Board.

Likewise, WCM does not represent a separate segment for TLG IMMOBILIEN as reports are only prepared within the aforementioned segment and the main decision-maker is the Chairperson (acting concurrently).

Revenue is generated by a large number of tenants. More than 10% of the total revenue was generated by one client. In the 2018 financial year, EUR k 28,474 of the total revenue was attributable to this client (previous year EUR k 22,167).

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 non-controlling interests were analysed in order to determine whether, under IAS 1.54 q, they are to be presented within equity in accordance with their contracts, or whether they are to be recognised as liabilities in accordance with IFRS. In this regard, an analysis was carried out to determine the scope in 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 2018 and 2017 financial years, the carrying amount of the investment property developed as follows:

in EUR k	2018	2017
Carrying amount as at 01/01	**3,383,259**	**2,215,228**
Company acquisition	0	799,948
Acquisitions	140,176	204,931
Capitalisation of construction activities and modernisation expenses	33,070	16,018
Reclassification as assets held for sale	– 48,408	– 71,025
Change in value of properties held for sale	7,921	7,827
Reclassification as property, plant and equipment	– 1,375	– 451
Fair value adjustments	552,884	210,783
Carrying amount as at 31/12	**4,067,527**	**3,383,259**

The portfolio strategy of TLG IMMOBILIEN stipulates the concentration on the asset classes of office and retail, as well as selected hotels to a more limited extent.

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.

Decisions on acquisitions, sales and pending investments are subject to the principles of the portfolio strategy.

Following the takeover of WCM and other acquisitions, especially the retail portfolio Onyx in 2017 with a total volume of around EUR 1.0 bn, the focus in 2018 was on the integration of the properties into the platform of TLG IMMOBILIEN AG. Consequently, at EUR k 140,176, acquisitions in 2018 were lower than in the previous year. The acquisitions concerned the civic centre “Klenow Tor” in Rostock and three office properties in Hamburg, Mannheim and Eschborn.

In 2018, the acquisitions were offset by EUR k 48,408 in reclassifications as investment property (previous year EUR k 71,025). The strategic acquisitions can be broken down by asset class as follows: 59% retail, 15% office and 26% other. The majority of disposals from the retail asset class concerned a retail package with 15 properties in total. The reclassifications also contained all disposals throughout the year that were first reclassified and then disposed of from assets classified as held for sale. The changes in the value of the properties held for sale amounting to EUR k 7,921 (previous year EUR k 7,827) reflect the consistently positive selling environment as well as the successful utilisation of market opportunities.

The increase in the capitalisation of construction measures from EUR k 16,018 in 2017 to EUR k 33,070 in 2018 is due essentially to the larger property portfolio and was almost entirely attributable to the office, retail and hotel asset classes. Of the capitalised costs, 34% were attributable to ongoing capital expenditure, 35% to tenant fit-outs and 31% to development measures. Essentially, the development measures concerned three construction projects and conversions/extensions of discounters as well as preparatory measures for future development projects.

In 2018, an adjustment of EUR k 552,884 (previous year EUR k 210,783) was made to the fair value due to positive results from active asset management and highly dynamic market developments, especially in Berlin. The largest change in value on the property level of EUR k 119,277 was attributable to Alexanderstrasse 1,3,5 in Berlin. The increase is value is the result of the ongoing increase in the value of Alexanderplatz as an office location with strong market rent growth in 2018 that were also reflected in new rental agreements in 2018, combined with a decrease in yields, especially for in-demand office locations in Berlin. The remeasurement was almost entirely attributable to the dormant portfolio of investment property. The dormant portfolio contains the properties that were in the portfolio on both 1 January and 31 December 2018, i.e. not the acquisitions and reclassifications as assets held for sale carried out in 2018.

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

Dormant portfolio as at 31/12/2018 versus 31/12/2017	Unit	Berlin	Dresden/ Leipzig/ Rostock	Rhine-Main	Other locations	Total
Investment properties as at 31/12/2018	EUR k	1,572,860	802,388	566,965	983,106	**3,925,319**
Change from 31/12/2018 to 31/12/2017	EUR k	469,855	78,031	20,927	14,011	**582,824**
Change from 31/12/2018 to 31/12/2017	%	42.6	10.8	3.8	1.4	**17.4**
Discount rate, weighted average as at 31/12/2018	%	4.13	4.75	4.19	4.99	**4.48**
Change from 31/12/2018 to 31/12/2017	pp	−0.53	−0.32	−0.31	−0.16	**−0.38**
Capitalisation rate, weighted average as at 31/12/2018	%	4.84	6.08	5.31	6.51	**5.58**
Change from 31/12/2018 to 31/12/2017	pp	−0.78	−0.38	−0.07	−0.26	**−0.50**
Average actual rent 31/12/2018	EUR/sqm/month	11.90	9.63	15.03	8.88	**10.43**
Change from 31/12/2018 to 31/12/2017	%	4.8	2.9	0.6	1.6	**2.7**
Average market rent 31/12/2018	EUR/sqm/month	15.55	10.09	14.49	8.35	**11.23**
Change from 31/12/2018 to 31/12/2017	%	25.5	11.2	1.2	0.8	**10.8**
EPRA Vacancy Rate as at 31/12/2018	%	2.0	2.1	8.4	2.7	**3.1**
Change from 31/12/2018 to 31/12/2017	pp	−0.5	0.0	−2.3	0.2	**−0.5**
WALT of temporary rental agreements as at 31/12/2018	years	5.9	7.3	6.3	5.7	**6.2**
Change from 31/12/2018 to 31/12/2017	years	0.5	0.0	−0.3	−0.6	**−0.1**

With regard to the dormant portfolio, the EUR k 469,855 or 42.6% change in the value of the Berlin portfolio year over year reflects the dynamism of the Berlin market that is underlined by the lower discount and capitalisation rates as well as the higher market rent. Similar – albeit significantly less striking – effects can be seen in Dresden, Leipzig and Rostock, as well as in the Rhine-Main area. The dormant portfolio experienced a EUR 6.1 m or 2.9% increase in annualised in-place rent in 2018 at the same time as a 0.5 pp reduction in the EPRA Vacancy Rate to 3.1% and a weighted average lease term (WALT) of 6.2 years.

At the end of 2018, TLG IMMOBILIEN AG analysed its portfolio and categorised it into a strategic and a non-strategic portfolio on the basis of the results. 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 2018. For comparative purposes, the overview of the values from the previous year has also been adapted to the new portfolio classifications. Prepayments made towards these properties are not included here, but rather are recognised separately in the statement of financial position.

Investment properties as at 31 December 2018
Portfolio overview by asset class

		Strategic portfolio					
As at 31/12/2018	**Unit**	**Office**	**Retail**	**Hotel**	**Total**	**Non-strategic portfolio**	**Total**
Investment properties	EUR k	2,173,639	1,202,225	326,740	3,702,604	364,923	**4,067,527**
Discount rate, weighted average	%	4.24	4.81	4.37	4.44	5.19	**4.50**
Capitalisation rate, weighted average	%	5.12	6.28	5.55	5.51	6.27	**5.58**
Average actual rent	EUR/sqm/month	11.67	10.08	13.18	11.07	7.57	**10.47**
Average market rent	EUR/sqm/month	13.79	9.82	16.13	12.20	6.97	**11.31**
EPRA Vacancy Rate	%	4.1	2.1	3.3	3.3	3.5	**3.3**
Proportion of temporary rental agreements	%	97.3	97.6	98.9	97.6	97.0	**97.5**

Investment properties as at 31 December 2017
Portfolio overview by asset class

		Strategic portfolio					
As at 31/12/2017	**Unit**	**Office**	**Retail**	**Hotel**	**Total**	**Non-strategic portfolio**	**Total**
Investment properties	TEUR	1,603,378	1,092,260	285,899	2,981,537	401,722	**3,383,259**
Discount rate, weighted average	%	4.66	5.07	4.60	4.80	5.39	**4.87**
Capitalisation rate, weighted average	%	5.68	6.68	5.64	6.02	6.80	**6.11**
Average actual rent	EUR/sqm/month	11.20	9.92	12.92	10.74	7.37	**10.06**
Average market rent	EUR/sqm/month	12.02	9.39	12.73	10.89	6.83	**10.07**
EPRA Vacancy Rate	%	5.2	1.7	2.3	3.6	3.4	**3.6**
Proportion of temporary rental agreements	%	97.5	97.7	98.9	97.7	95.7	**97.4**

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 2018 would have been the following:

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

Investment properties as at 31 December 2017 – sensitivity analysis

As at 31/12/2017	**Investment properties**		**Discount rate**	
Values in EUR k		**–0.5 %**	**0.0 %**	**+0.5 %**
	–0.5 %	3,722,450	3,577,050	3,434,717
Capitalisation rate	**0.0 %**	3,519,513	**3,383,259**	3,250,092
	+0.5 %	3,348,424	3,219,364	3,095,862

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 2018:

in EUR k	Due within 1 year	Remaining term > 1 to 5 years	Remaining term > 5 years	Total
31/12/2018	216,214	638,977	520,503	**1,375,694**
31/12/2017	205,646	602,402	520,025	**1,328,073**

In the 2018 financial year, contingent rents in the amount of EUR k 831 (previous year EUR k 830) 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

Property, plant and equipment are primarily attributable to owner-occupied properties (EUR k 8,104; previous year EUR k 6,868).

Due to an increase in owner-occupied area in 2018, the owner-occupied properties measured according to IAS 16 were reclassified from investment property.

The intangible assets totalling EUR k 2,590 (previous year EUR k 165,923) mainly consist of purchased software. The goodwill of EUR k 164,724 has been amortised in full.

E.3 OTHER FINANCIAL ASSETS

The other financial assets are classified as follows:

in EUR k	31/12/2018	31/12/2017
Other loans	12,015	11,527
Account balances with restricted access	305	1,516
Derivative financial instruments	1,650	3,111
Other financial assets	676	775
Total	**14,646**	**16,930**

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 95); the rest is current.

E.4 TRADE RECEIVABLES

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

in EUR k	31/12/2018	31/12/2017
Trade receivables, gross	16,776	11,420
Applicable allowances	− 1,913	− 1,232
Total trade receivables	**14,864**	**10,188**
of which from letting activities	13,906	9,538
of which from disposals of properties	69	472
of which other trade receivables	888	178

All trade receivables are current.

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

E.5 OTHER RECEIVABLES AND ASSETS

Other receivables and assets can be broken down as follows:

in EUR k	31/12/2018	31/12/2017
Accruals and deferrals	5,166	5,809
Prepayments	44	24
Accruals and deferrals from rental incentives granted	15,254	10,531
Other assets	2,264	3,466
Total	**22,727**	**19,829**

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

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

Of the other receivables and assets, EUR k 2,562 is current (previous year EUR k 5,326); the rest is non-current.

E.6 INVENTORIES

Inventories are subdivided as follows:

in EUR k	31/12/2018	31/12/2017
Land with completed buildings	95	120
Undeveloped land	642	642
Total	**737**	**762**

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

in EUR k	2018	2017
Inventories recognised as expenses in the reporting period	0	1
Inventories with a term of more than one year	737	761

E.7 CASH AND CASH EQUIVALENTS

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

in EUR k	31/12/2018	31/12/2017
Bank balances	153,809	201,469
Cash in hand	83	7
Total cash and cash equivalents	**153,893**	**201,476**

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

E.8 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	2018	2017
Carrying amount as at 01/01	**9,698**	**19,174**
Fair value adjustments for interest rate derivatives in cash flow hedges	48,408	71,025
Disposal through the sale of land and buildings	– 25,025	– 80,500
Carrying amount as at 31/12	**33,080**	**9,698**

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.9 EQUITY

As at the reporting date, the subscribed capital of the company was EUR k 103,385 (previous year EUR k 102,029). The share capital is fully paid-in. There are no other share types.

Development of other components of equity

The capital reserves amount to EUR k 1,011,381 (previous year EUR k 1,061,087). In particular, the changes (EUR k 49,706) are the result of the share capital increase in exchange for contributions in kind in connection with the settlement offer to the outside shareholders of WCM AG, as well as the withdrawal of EUR k 77,306 for allocation to net retained profit (retained earnings).

The retained earnings of the Group have increased by EUR k 284,148 to EUR k 1,023,751 (previous year EUR k 739,603). This was due to the EUR k 307,928 in net income attributable to the shareholders of the parent company, the allocation from the capital reserve and the payment of a dividend of EUR k 84,645 to the shareholders in the financial year, which equates to EUR 0.82 per eligible no-par value share.

Other comprehensive income comprises actuarial gains and losses of EUR k 2,199 (previous year EUR k 1,948) as well as accumulated fair value adjustments of derivatives in cash flow hedges of EUR k 2,394 (previous year EUR k 3,135).

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

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

01/01–31/12/2017 in EUR k	Before deferred taxes	Deferred taxes	After referred taxes
Fair value adjustments for interest rate derivatives in cash flow hedges	11,756	−3,763	7,993
Actuarial gains and losses	306	−92	214

E.10 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 56,202 were taken out in the 2018 financial year (previous year EUR k 220,098).

As at 31 December 2018, six loans totalling EUR k 112,739 (previous year EUR k 4,228) due in 2019 and the scheduled repayments to be made in 2019 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	31/12/2018	31/12/2017
Due within 1 year	136,613	24,816
Due in more than 1 year	1,046,342	1,120,901

E.11 CORPORATE BONDS

In November 2017, TLG IMMOBILIEN AG successfully 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"). The Bond was issued at an offering price of 99.735% with a term ending on 27 November 2014, a coupon of 1.375% p.a. and a total yield of 1.415% p.a.

E.12 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 2018, EUR k 2,375 of the present value of the benefit obligation was attributable to the group of former scheme members and EUR k 5,645 was attributable to the group of pensioners and survivors. The average term of the obligations towards the managing directors is 13.24 years. The company accrued payments of EUR k 314 (previous year EUR k 294) under pension schemes in 2018.

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:

	31/12/2018	31/12/2017
Discount rate	1.60 %	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 published by Dr Klaus Heubeck were used for the biometric assumptions; the 2005G mortality tables were used in the previous year.

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

in EUR k	2018	2017
Present value of the obligations as at 01/01	**7,858**	**8,347**
Current service costs	0	0
Interest expense	123	111
Pension payments rendered by the employer directly	−314	−294
Actuarial gains/losses	352	−306
Present value of the obligations as at 31/12	**8,019**	**7,858**

The actuarial gains and losses resulting from the adjustment of the discount rate were recognised in other comprehensive income. Of this amount, a gain/loss of EUR k 243 (previous year EUR k −37) is attributable to adjustments made in the current year based on past experience, a gain/loss of EUR k 0 (previous year EUR k −269) is attributable to changes to financial assumptions and a gain/loss of EUR k 109 (previous year EUR k 0) is attributable to changes to demographic assumptions. Overall, other comprehensive income comprises actuarial losses before deferred taxes of EUR k 3,171 (previous year EUR k 2,820).

Expenses of EUR k 802 (previous year EUR k 597) 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 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

Previous year in EUR k	Change in the assumption	Increase in the assumption	Decrease in the assumption
Discount rate	1.00 %	6,908	9,026
Rate of pension progression[1]	0.50 %	8,235	7,512

[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. If several assumptions are changed at once, the total amount does not necessarily have to correspond to the sum of the individual effects resulting from changes to the assumptions. 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 magnitude, this will not necessarily have a linear impact on the amount of the pension provisions.

E.13 OTHER PROVISIONS

The other provisions developed as follows in the financial year:

in EUR k	As at 01/01/2018	Contribution	Utilisation	Reversals	As at 31/12/2018
Provisions for litigation risks	4,011	587	−664	−111	3,821
Other miscellaneous provisions	39	661	−3	−68	630
Total	**4,049**	**1,248**	**−667**	**−179**	**4,451**

The provisions for litigation risks concern the risks of losing 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.14 DEFERRED TAXES

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

	31/12/2018		31/12/2017	
in EUR k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property and owner-occupied property	0	557,990	562	369,009
Property, plant and equipment	0	1,385	0	0
Intangible assets	18	0	0	0
Other non-current financial assets	0	506	0	511
Other assets	2,009	16,717	136	2,977
Pension provisions	1,149	0	1,133	0
Other provisions	0	798	149	0
Financial liabilities	3,925	2,216	4,642	2,233
Other liabilities	3,177	349	389	0
Deferred taxes on taxable temporary differences	**10,278**	**579,961**	**7,011**	**374,730**
Loss/interest carryforwards	89,376	0	95,164	0
OBD	0	181	0	181
Total of deferred taxes before offsetting	**99,653**	**580,142**	**102,175**	**374,911**
Offsetting	99,653	99,653	102,175	102,175
Disclosure after offsetting	**0**	**480,489**	**0**	**272,736**

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

in EUR k	31/12/2018	31/12/2017
Deferred tax claims		
– realised after more than 12 months	86,323	93,863
– realised within 12 months	13,330	8,312
Total of deferred tax claims	**99,653**	**102,175**
Deferred tax liabilities		
– realised after more than 12 months	567,986	374,692
– realised within 12 months	12,156	219
Total of deferred tax liabilities	**580,142**	**374,911**

As at the end of the financial year, deferred tax liabilities for outside basis differences totalled EUR k 181 (previous year EUR k 181).

On the level of WCM, there are unused tax losses of around EUR 181 m for corporation tax and of EUR 118 m for trade tax for which no deferred tax claims have been recognised as their usability is not considered sufficiently likely from a current standpoint.

E.15 LIABILITIES

The liabilities are classified as follows:

in EUR k	31/12/2018	31/12/2017
Trade payables	**35,389**	**17,169**
Total of other liabilities	**42,821**	**49,383**
Liabilities to employees	1,437	1,754
Prepayments received	5	4,352
Other taxes	3,213	2,006
Investment grants	786	950
Liabilities to tenants	15	2,315
Accruals and deferrals from derivative financial instruments	1,917	2,164
Liabilities to non-controlling interests	22,010	22,088
Liabilities to WCM shareholders	2,627	0
Purchase price liabilities	0	5,192
Miscellaneous other liabilities	10,811	8,563
Total of liabilities	**78,210**	**66,553**

The liabilities have the following remaining terms:

in EUR k	31/12/2018	31/12/2017
Up to 1 year	49,702	39,752
1–5 years	1,265	0
More than 5 years	27,243	26,801
Total	**78,210**	**66,553**

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 2018 and 2019 financial years.

The higher amount prepayments received in the previous year resulted from disposals of properties.

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 786 in investment subsidies, EUR k 623 is long term.

The higher liabilities to tenants in the previous year resulted from credit from the annual utility invoices and overpayments by tenants.

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.

F. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

F.1 NET OPERATING INCOME FROM LETTING ACTIVITIES

Income from letting activities increased significantly in the 2018 financial year, due primarily to the acquisition of WCM and the other property acquisitions.

The ratio of expenses related to letting activities to income from letting activities has increased slightly.

In the financial year, rent guarantees totalling EUR k 163 (previous year EUR k 1,221) were accepted.

The comparative values from the previous year for the expenses for other services have been adjusted within the expenses related to letting activities in order to harmonise them with the prevailing practice in the sector. Overall, EUR k 1,345 has been reclassified from other services related to letting activities to other operating expenses. Essentially, this concerned acquisition expenses and fees for market valuations. Additionally, maintenance expenses of EUR k 1,057 have been reclassified from expenses from other services related to letting activities to maintenance expenses. Furthermore, EUR k 10 has been reclassified as expenses from the disposal of properties and EUR k 1 has been reclassified as expenses from operating costs.

F.2 RESULT FROM THE DISPOSAL OF PROPERTIES

The result from the disposal of properties developed as follows in 2018 and in the previous year:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Proceeds from the disposal of properties	25,025	83,716
Carrying amount of properties disposed of	−25,025	−81,156
Change in value of properties held for sale	7,921	7,827
Costs of disposing of properties	−88	−10
Result from the disposal of properties	**7,833**	**10,377**

The changes in the value of properties held for sale for which a purchase agreement has been concluded yet which have not yet been handed over resulted in profit of EUR k 7,921 as at 31 December 2018 (previous year EUR k 7,827). In the financial year ended, these amounts and the remeasurement during the year were recognised in the remeasurement of investment property. The amount recognised has been adjusted compared to the previous year in order to adapt to the prevailing practice in the sector.

In the 2018 financial year, notarised purchase agreements with a total purchase price of EUR k 48,408 were concluded in connection with 34 properties. In the retail asset class, in addition to five individual properties, one retail portfolio comprising 15 properties overall was disposed of. Five other properties were disposed of from the office asset class and nine from the other asset class. The change in the value of properties held for sale amounted to EUR k 7,921. As at the reporting date, the benefits and encumbrances of 15 of these notarised property sales had already been transferred.

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 2018 financial year. The change in value was primarily driven by the positive market trends as well as, on a like-for-like basis, i.e. not factoring in the acquisitions and disposals in 2018, the reduction of vacancy rates and the continuous growth in effective rents.

See section E.1 for more details.

F.4 OTHER OPERATING INCOME

Other operating income developed as follows in the reporting periods in 2018 and in the previous year:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Reversal of allowances	327	781
Income from previous years	1,181	432
Other income	488	697
Total	**1,996**	**1,909**

F.5 PERSONNEL EXPENSES

Personnel expenses were as follows in 2018 and in the previous year:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Salaries	11,588	7,980
Social security contributions and pension expenses	1,614	1,426
Bonuses	1,631	1,540
Exit compensation	200	375
Share-based payment components under IFRS 2	1,472	681
Total	**16,505**	**12,001**

The increase in personnel expenses is due primarily to the remuneration paid to the former members of the Management Board, as reflected by the salaries and share-based payments. Please refer to section H.10.

Additionally, salaries and social expenses have increased due to the change in the number of employees, which resulted from the WCM integration and the recruitment of new employees.

F.6 DEPRECIATION AND AMORTISATION

Depreciation and amortisation developed as follows in the financial year and in the comparative period:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Amortisation of goodwill	164,724	0
Amortisation of intangible assets	619	188
Depreciation of land, land rights and buildings	139	61
Depreciation of technical equipment and machinery	19	216
Depreciation of other equipment and office and operating equipment	254	0
Total	**165,755**	**466**

See section D4 for more information on the amortisation of goodwill.

F.7 OTHER OPERATING EXPENSES

Other operating expenses were recognised as follows in the 2018 and 2017 financial years:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Impairments of receivables	1,221	922
Consultancy and audit fees	5,586	10,801
General IT and administrative expenses	2,536	2,401
Depreciation on inventories	20	0
Ancillary office costs	820	616
Corporate advertising	898	968
Vehicle and travel expenses	594	564
Other taxes	28	38
Other	4,472	3,537
Reversal of provisions/liabilities	– 45	–505
Total	**16,128**	**19,342**

Essentially, the higher consultancy and audit fees in the previous year were due to the transaction costs as part of the takeover of WCM.

The item “Other” essentially comprises Supervisory Board remuneration, compensatory payments, non-deductible input tax and expenses in connection with court fees and litigation, and has increased due, for example, to the integration of WCM.

“Reversal of provisions/liabilities” contains accrued invoices and provisions from the previous year for other expenses which proved to be less costly than anticipated. These are attributable to the settlement of legal disputes in particular.

F.8 FINANCIAL RESULT

The financial result is broken down as follows:

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Net interest from bank balances	–4	–17
Net interest from default interest and deferrals	–187	–28
Other financial income	–437	–72
Total financial income	**–628**	**–117**
Interest expenses for interest rate derivatives	6,449	17,084
Interest on loans	23,719	18,807
Interest expenses from pension provisions	123	111
Other interest expenses	1,817	8,615
Total financial expenses	**32,109**	**44,617**
Financial result	**31,481**	**44,500**

In the 2017 financial year, the financial result was characterised by special items totalling around EUR k 19,198 in expenses for interest rate derivatives and other financial expenses resulting from the refinancing and loan repayments in the financial year. Such expenses only amounted to EUR k 22 in the 2018 financial year.

F.9 RESULT FROM THE REMEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

In the 2018 financial year, there was expenditure of EUR k 7,904 from the remeasurement of derivative financial instruments (previous year income of EUR k 5,664).

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	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Current income tax	3,354	2,258
Tax expenses from capital increase costs	0	1,964
Actual income taxes from prior periods	– 398	– 3,066
Deferred taxes	207,764	21,799
Tax expenses/income	**210,720**	**22,955**

The ongoing income taxes have increased due primarily to the higher result from the determination of taxable income. The increase was merely EUR k 1,096 due to the use of the interest and loss carryforwards.

In particular, the income taxes from other periods are attributable to the tax assessment of TLG IMMOBILIEN AG for 2016 (EUR k 356).

The increase in deferred tax expenses is due primarily to the higher market values of investment properties that cannot be recognised for tax purposes (EUR k + 189,541).

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	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
IFRS earnings before taxes	**521,666**	**307,327**
Group tax rate in %	30.68 %	30.67 %
Expected income taxes	**160,021**	**94,257**
Special trade tax regulations	– 730	848
Changes in tax rate due to relocation of headquarters	4,323	0
Deviating tax rates for subsidiaries	– 195	– 1,045
Actual taxes in previous years	– 500	– 3,064
Deferred taxes for previous years	– 750	0
Initial recognition or carry-back of loss carryforwards	– 2,527	– 70,094
Losses that cannot be offset	259	0
Tax-free income	– 274	16
Non-deductible expenses	51,114	2,195
Other tax effects	– 21	– 159
Effective income taxes	**210,720**	**22,955**
Effektiver Steuersatz in %	40.39 %	7.47 %

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 was therefore 40.39% in the reporting year (previous year 7.47%). The effective tax expenses were 32.92 percentage points higher than in the previous year.

In particular, the amortisation of goodwill that is not tax-deductible served to increase the tax rate in this year (+ 9.68 percentage points). The effects of the initial recognition of loss carryforwards that lowered the tax rate were significantly lower than in the previous year (– 0.48 percentage points in the current year; – 22.81 percentage points in the previous year).

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

in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Deferred tax assets at the start of the reporting year	102,175	16,479
Change (in net profit or loss)	– 2,533	71,852
Change recognised in equity	11	– 3,855
Change due to scope of consolidation	0	17,698
Deferred tax assets at the end of the reporting year	**99,653**	**102,175**
Deferred tax liabilities at the start of the reporting year	374,911	231,540
Change (in net profit or loss)	205,231	93,652
Change due to changes in the scope of consolidation	0	49,719
Deferred tax liabilities at the end of the reporting year	**580,142**	**374,911**

Deferred tax claims which are recognised directly to equity result from actuarial losses for pension obligations and hedge accounting reserves.

For more details on the deferred taxes, see section E.14.

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	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Net income attributable to the shareholders of the parent company, in EUR k	307,928	283,797
Weighted average number of shares outstanding in thousands	102,842	79,681
Basic earnings per share in EUR	**2.99**	**3.56**
Potential diluting effect of share-based payments in thousands	0	115
Number of shares with a potential diluting effect in thousands	102,842	79,796
Diluted earnings per share in EUR	**2.99**	**3.56**

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.

Cash and cash equivalents contain the recognised cash and cash equivalents, and therefore also cash in hand and bank balances. Please see section E.7.

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 83,959. Essentially, this is due to the fact that WCM is contributing income and cash flows to the Group for a full financial year for the first time in 2018. Additionally, payments of EUR k 19,198 had to be made to prematurely repay loans and for interest rate hedges in the previous year.

The cash flow from investing activities mainly comprises cash acquisitions and disposals of properties. The higher amount of cash paid (EUR k 1,114) compared to the previous year is essentially due to significantly lower proceeds from the disposal of non-strategic properties and less cash paid for portfolio properties (EUR k 153,272 in 2018; EUR k –241,767 in the previous year).

The negative cash flow from financing activities mainly results from the dividend payment to shareholders in the amount of EUR k 84,645, an increase of EUR k 25,305 compared to the previous year. Payments of EUR k 56,202 from a loan had an opposite effect.

The financial liabilities developed as follows:

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

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:

31/12/2018 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	

31/12/2017 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)	LaR	11,527	0	11,527	0	0	11,527	3
Other non-current financial assets	HfT	3,386	0	0	3,386	0	3,386	2
Trade receivables	LaR	10,188	0	10,188	0	0	10,188	3
Other current financial assets	LaR	2,016	0	2,016	0	0	2,016	2
Cash and cash equivalents	LaR	201,476	201,476	0	0	0	201,476	1
Total financial assets		**228,594**	**201,476**	**23,731**	**3,386**	**0**	**228,594**	
Liabilities due to financial institutions	FLaC	1,145,717	0	1,145,717	0	0	1,174,706	2
Corporate bonds	FLaC	395,975	0	395,975	0	0	399,188	2
Trade payables	FLaC	17,169	0	17,169	0	0	17,169	3
Derivative financial instruments	FLHfT	4,924	0	0	0	0	4,924	2
Other liabilities	FLaC	49,384	0	0	27,837	21,547	49,384	2
Total financial liabilities		**1,613,169**	**0**	**1,558,861**	**27,837**	**21,547**	**1,645,371**	
Financial assets held for trading	HfT	3,386	0	0	3,386	0	3,386	
Loans and receivables	LaR	225,207	201,476	23,731	0	0	225,207	
Financial liabilities measured at amortised cost	FLaC	1,608,245	0	1,558,861	27,837	21,547	1,640,447	
Financial liabilities held for trading	FLHfT	4,924	0	0	0	0	4,924	

A loan assigned to the category LaR is recognised under other non-current assets. The fair value does not differ greatly from the amortised cost.

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.

The new IFRS 9 replaces IAS 39 and unifies the requirements concerning the classification and measurement of financial assets and financial liabilities. Fundamentally, the standard concerns the characteristics of cash flows and the business model under which they are controlled. The allocation of financial assets and financial liabilities to the new measurement categories of IFRS 9 had no effect on the net assets, cash flows and financial performance of the Group and is compared against the previous categories of IAS 39 in the table below:

in EUR k	Measurement category in accordance with IAS 39		Measurement category in accordance with IFRS 9		Carrying amount as at 01/01/2018 according to IAS 39	Carrying amount as at 01/01/2018 according to IFRS 9	Difference
Other non-current financial assets (other loans)	LaR	Amortised cost	AC	Amortised cost	11,527	11,527	0
Other non-current financial assets	HfT	Changes in fair value recognised in profit and loss	FVTPL	Changes in fair value recognised in profit and loss	3,386	3,386	0
Forderungen aus Lieferungen und Leistungen	LaR	Amortised cost	AC	Amortised cost	10,188	10,188	0
Other current financial assets	LaR	Amortised cost	AC	Amortised cost	2,016	2,016	0
Cash and cash equivalents	LaR	Amortised cost	AC	Amortised cost	201,476	201,476	0
Total financial assets					**228,594**	**228,594**	**0**
Liabilities due to financial institutions	FLaC	Amortised cost	FLaC	Amortised cost	1,145,717	1,145,717	0
Corporate bonds	FLaC	Amortised cost	FLaC	Amortised cost	395,975	395,975	0
Trade payables	FLaC	Amortised cost	FLaC	Amortised cost	17,169	17,169	0
Derivative financial instruments	FLHfT	Changes in fair value recognised in profit and loss	FVTPL	Changes in fair value recognised in profit and loss	4,924	4,924	0
Other liabilities	FLaC	Amortised cost	FLaC	Amortised cost	49,384	49,384	0
Total financial liabilities					**1,613,169**	**1,613,169**	**0**

Measurement categories according to IAS 39: Loans and Receivables (LaR), Held for Trading (HfT), Financial Liabilities measured at amortised Costs (FLaC), Financial Liabilities held for Trading (FLHfT)
Measurement categories according to IFRS 9: Financial Assets at amortised Costs (AC), At Fair Value through Profit and Loss (FVTPL), Financial Liabilities measured at amortised Costs (FLaC)

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	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Financial assets measured at amortised cost	266	14
Financial assets and financial liabilities measured at fair value through profit or loss	7,904	– 5,664
Financial liabilities measured at amortised cost	25,536	27,422
Total	**33,706**	**21,772**

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 628 (previous year EUR k 117).

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 23,719 in connection with loans.

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 their identification, monitoring, reporting, management and control. 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 the central control office.

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.

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 2018, the debt-to-equity ratio was as follows compared to the previous year:

in EUR k	31/12/2018	31/12/2017	Change	Change in %
Investment property (IAS 40)	4,067,527	3,383,259	684,268	20.2
Advance payments on investment property (IAS 40)	23	17,525	−17,502	−99.9
Owner-occupied property (IAS 16)	8,104	6,868	1,236	18.0
Non-current assets classified as held for sale (IFRS 5)	33,080	9,698	23,382	241.1
Inventories (IAS 2)	737	762	−25	−3.3
Real estate assets	**4,109,471**	**3,418,112**	**691,359**	**20.2**
Interest-bearing liabilities	1,579,442	1,541,692	37,750	2.4
Cash and cash equivalents	153,893	201,476	− 47,583	−23.6
Net debt	**1,425,549**	**1,340,216**	**85,333**	**6.4**
Net Loan to Value (Net LTV) in %	**34.7**	**39.2**	**−4.5 pp**	

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

The Net LTV in the Group is 34.7% and decreased by 4.5 percentage points compared to the previous year. The capital management goals were achieved in the reporting year.

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 risk with any of its contractual partners. The concentration of the credit risk is limited by the broad, heterogeneous customer base. Bad debt risks are minimised by the careful selection of contractual partners supported by professional credit checks. Additionally, standard credit hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used. If necessary, allowances are carried out for receivables.

The creditworthiness of contractual partners is 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. The company will then not enter into any new items with such contractual partners.

The bank balances of TLG IMMOBILIEN are fully protected against the risk of bank failure by the security measures of German banks. TLG IMMOBILIEN regularly checks the banks' memberships in, and the coverage of, the protection schemes.

The highest possible default risk is therefore the carrying amount of the financial assets, not including the value of 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:

31/12/2018 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**

31/12/2017 in EUR k	Carrying amount before impairment	Impairment	Residual carrying amount
Trade receivables	11,420	−1,232	10,188
Other financial assets	16,987	−57	16,930
Total	**28,407**	**−1,289**	**27,118**

Collateral exists for the gross trade receivables – essentially rent deposits of approx. EUR 4.2 m (previous year EUR 3.5 m) – which can be used to offset outstanding receivables if the legal requirements are met.

The allowances were as follows in the 2018 financial 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	**1,288**	**1,015**	**−18**	**−327**	**0**	**1,959**

The impairments were as follows in the same period in the previous year:

31/12/2017 in EUR k	As at 01/01	Contribution	Utilisation	Reversals	Other change	As at the reporting date
Trade receivables	2,323	245	−723	−778	164	1,232
Other financial assets	60	10	−11	−3	0	57
Total	**2,383**	**255**	**−734**	**−781**	**164**	**1,288**

Additionally, the table below presents the age structure of the financial assets that were overdue but not individually impaired as at the reporting date.

		Adjusted		Not adjusted			
					Overdue but not impaired as at the reporting date		
31/12/2018 in EUR k	Carrying amount	Gross amoun	Allowance	Neither impaired nor overdue as at the reporting date	< 90 days	90–180 days	> 180 days
Trade receivables	14,864	3,428	−1,913	7,955	2,055	1,152	2,186
Other financial assets	14,646	14,634	−46	0	0	0	58
Total	**29,510**	**18,062**	**−1,959**	**7,955**	**2,055**	**1,152**	**2,244**

		Adjusted		Not adjusted			
					Overdue but not impaired as at the reporting date		
31/12/2017 in EUR k	Carrying amount	Gross amoun	Allowance	Neither impaired nor overdue as at the reporting date	< 90 days	90–180 days	> 180 days
Trade receivables	10,188	5,614	−1,232	4,584	79	439	704
Other financial assets	16,930	16,890	−57	0	2	0	96
Total	**27,118**	**22,504**	**−1,289**	**4,584**	**81**	**439**	**800**

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
31/12/2018			
Trade receivables	42,404	−41,159	4,246
31/12/2017			
Trade receivables	43,930	− 42,512	2,915

Financial liabilities 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
31/12/2018			
Prepayments received towards operating costs	−41,159	42,404	−3,519
31/12/2017			
Prepayments received towards operating costs	−42,512	43,930	−1,811

The offsetting concerns the prepayments made towards the operating costs of the tenants, which are offset against the corresponding receivables from operating costs per tenant.

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 treasury 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.

31/12/2018 in EUR k		Maturities		
	Carrying	< 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**

31/12/2017 in EUR k		Maturities		
	Carrying	< 1 year	1–5 years	> 5 years
Liabilities due to financial institutions	1,145,717	35,341	483,360	750,081
Corporate bonds	395,975	5,500	22,015	410,986
Derivative financial instruments	4,924	6,225	6,605	−11,528
Trade payables	17,169	17,169	0	0
Other liabilities	49,384	22,340	243	26,801
Total	**1,613,169**	**86,577**	**512,223**	**1,176,340**

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. Both variants combined make up 100% of the financial liabilities (100% in the previous year). The average effective interest rate is around 1.90% (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 2018	1,579,443	1,578,876	124,736	452,731	1,001,409
Prolongation structure 2017	1,541,692	1,540,357	74,400	380,444	1,085,513

Some financing contracts provide for financial covenants (essentially 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 significant covenants were breached in 2018.

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 2018, 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	**1,650**	**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

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	**3,111**	**0**
of which interest rate swaps	1,901	0
of which floors	1,210	0
Derivative liabilities held for trading	**4,924**	**0**
of which interest rate swaps	4,924	0

The derivative financial instruments were used as hedging instruments under IAS 39 until the end of March 2017, provided that they met the hedge accounting requirements.

Hedge accounting for derivative financial instruments 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. This corresponds to the effective part of the change in fair value.

in EUR k	2018	2017
Opening balance as at 01/01	**−4,285**	**−16,041**
Recognition in other comprehensive income in the reporting period	0	5,355
Reversal from equity into the statement of profit or loss	831	6,401
Closing balance as at 31/12	**−3,454**	**−4,285**

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
31/12/2018		
Financial liabilities	2,926	−2,926
Interest rate derivatives	20,502	−20,705
Floors	−812	1,555

Financial instruments in EUR k	Effects on income	
	+50 BP	−50 BP
31/12/2017		
Financial liabilities	−2,248	2,248
Interest rate derivatives	24,221	−25,415
Floors	−782	1,557

H.8 NUMBER OF EMPLOYEES

As at 31 December 2018, 132 people were employed by the Group (137 as at 31/12/2017).

	31/12/2018	Average number of employees in 2018	31/12/2017	Average number of employees in 2017
Permanent employees	129	126	134	113
Temporary employees	3	3	3	3
Total	**132**	**129**	**137**	**116**

*With WCM 26 employees

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	2018	2017
Audit services	561	253
Other assurance services	176	635
Tax consulting services	0	3
Total fee	**737**	**891**

The audit services amounting to EUR k 561 include for the first time EUR k 213 for auditor services in connection with the audit of the annual financial statements and the audit of the consolidated financial statements of WCM AG. Another EUR k 7 is attributable to services in connection with voluntary audits of subsidiaries of WCM AG.

Higher in the previous year, the other assurance services essentially resulted from services of the auditor in connection with the preparation of various comfort letters for prospectuses.

H.10 IFRS 2 PROGRAMMES

H.10.1 SHARE-BASED PAYMENTS TO EMPLOYEES

In the 2018 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 2018 is EUR k 253.

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 for the members of the Management Board, which were concluded in late September 2014, included a long-term incentive programme for each financial year from 2015 to 2018. In January 2018, the members of the Management Board received a new long-term incentive scheme for the financial years from 2018 to 2022. Therefore, the 2018 tranche from the long-term incentive scheme from 2014 has been replaced by the 2018 tranche from the new long-term incentive scheme. All outstanding tranches were paid out when the members of the Management Board left the company in October 2018.

The current members of the Management Board will also receive a long-term incentive in every financial year in which they serve on the Management Board.

An 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 1,446 were recognised for the LTI for the new and former members of the Management Board in the 2018 financial year (previous year EUR k 519). The provisions formed amount to EUR k 497 (previous year EUR k 0).

The fair value of the 2018 LTI tranche as at the settlement date was EUR k 108 and was calculated using a recognised option pricing model. For more information on the Management Board contracts, see the disclosures in the remuneration report.

H.11 RELATED PARTIES

Related companies and parties are defined as companies and persons which have the ability to control or exercise significant influence over the TLG IMMOBILIEN Group, 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.

Additionally, DIC Asset AG and Ouram Holding S.à r.l. count as related parties according to IAS 24.9 (b) (ii).

Related companies

The company and its subsidiary WCM Beteiligungs- und Grundbesitz- Aktiengesellschaft, Frankfurt/Main concluded a control agreement in 2017 which was entered into the commercial register of the subsidiary on 9 February 2018, at which point it came into effect.

In the 2018 financial year, the company entered into control and profit transfer agreements with the subsidiaries:

- TLG EH1 GmbH
- TLG EH2 GmbH
- TLG FAB GmbH

Effective as at 1 March 2018, TLG IMMOBILIEN AG concluded an agency agreement with its subsidiaries and their direct and indirect subsidiaries and 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 the operating and management activities of all of the companies in the TLG IMMOBILIEN Group since that time.

TLG IMMOBILIEN AG and WCM AG concluded a loan agreement for EUR k 5,564 on 15 March 2018. The loan is payable by 31 October 2024 and will bear interest at a rate of 1.97% p.a. over its term. The loan is being used to settle liabilities of WCM Verwaltungs III GmbH & Co. KG, a subsidiary of WCM AG, specifically to fulfil purchase price obligations (retained purchase prices) in connection with the acquisition of the real estate companies held by it.

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 2018 financial year.

The composition of the Management Board has changed since the previous year. Mr Gerald Klinck (CFO) and Mr Jürgen Overath (COO) were appointed as members of the Management Board of TLG IMMOBILIEN AG with effect from 17 September 2018. The members of the Management Board Peter Finkbeiner and Niclas Karoff left TLG IMMOBILIEN AG with effect from 31 October 2018.

Likewise, the composition of the Supervisory Board changed in the 2018 financial year.

Ms Elisabeth Talma Stheeman resigned from her position on the Supervisory Board with effect from 29 January 2018. Mr Stefan E. Kowski was appointed as a new member of the Supervisory Board by the local court of Berlin Charlottenburg on 21 February 2018 until the end of the general meeting in 2018 in which Mr Kowski was elected as a member of the Supervisory Board. Mr Kowski 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.

Furthermore, Mr Frank D. Masuhr resigned from the Supervisory Board with effect from 31 January 2018. On 5 March 2018, Mr Sascha Hettrich was appointed to the Supervisory Board by the local court of Berlin Charlottenburg until the end of the general meeting in 2018 in which he was elected as a member of the Supervisory Board. Mr Hettrich was appointed as a member of the Supervisory Board until the end of the general meeting that resolves on in 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.

Also, Dr Claus Nolting stepped down as a member of the Supervisory Board with effect from 31 December 2018.

After the reporting date, Mr Jonathan Lurie was appointed as a new member of the Supervisory Board by order of the local court of Berlin-Charlottenburg from 15 February 2019 until the end of the general meeting in 2019.

The remuneration paid by TLG IMMOBILIEN AG to the members of the Management Board was as follows in the 2018 financial year:

in EUR k	2018	2017
Fixed remuneration	890	600
Fringe benefits	208	117
Subtotal of fixed remuneration	**1,098**	**717**
Short-term variable remuneration (STI)	626	520
Long-term variable remuneration (LTI)	476	0
Subtotal of variable remuneration	**1,102**	**520**
Total remuneration	**2,200**	**1,237**

Additionally, Mr Finkbeiner and Mr Karoff, the two former members of the Management Board, received special compensation of EUR k 1,794.

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 2018 (previous year EUR 0.2 m). In 2018, EUR 2.4 m was placed into reserves for pension obligations to past members of the management (previous year EUR 2.9 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 2018 financial year totalled EUR 0.6 m (previous year EUR 0.5 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	2018	2017
Benefits due in the short term	2,306	1,759
Benefits due to the termination of employment	1,794	0
Share-based payments	1,446	519
Total	**5,546**	**2,279**

The Supervisory Board of TLG IMMOBILIEN AG consists of the following members:

Michael Zahn (Chairperson of the Supervisory Board)	Member since 05/09/2014 Chairperson since 08/09/2014
Chairperson of the presidential and nomination committee, TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Chairperson of the capital market and acquisitions committee, TLG IMMOBILIEN, Berlin	since 10/11/2016
Member of the audit committee, TLG IMMOBILIEN, Berlin	since 23/04/2018
CEO, Deutsche Wohnen SE, Berlin	
Chairperson of the Supervisory Board, WCM Beteiligungs- und Grundbesitz-AG, Frankfurt/Main	from 20/11/2017 to 08/02/2018
Chairperson of the Supervisory Board, GSW Immobilien AG, Berlin	June 2015 to 26/06/2018
Member of the Supervisory Board, Scout24 AG, Munich	
Chairperson of the Advisory Board, G+D Gesellschaft für Energiemanagement GmbH, Magdeburg	
Chairperson of the Advisory Board, Funk Schadensmanagement GmbH, Berlin	
Member of the Advisory Board, DZ Bank AG, Frankfurt/Main	
Member of the Advisory Board, Füchse Berlin Handball GmbH, Berlin	
Member of the Real Estate Advisory Board, GETEC Wärme & Effizienz AG, Magdeburg	
Dr Michael Bütter (Vice-chairperson)	Member since 25/09/2014 Vice-chairperson since 07/03/2017
Member of the presidential and nomination committee, TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Member of the capital market and acquisitions committee, TLG IMMOBILIEN, Berlin	since 10/11/2016
Member of the project development committee, TLG IMMOBILIEN, Berlin	since 29/11/2017
Lawyer	
Chief Executive Officer (CEO) and speaker of the Management Board, CORESTATE Capital Holding S.A., Luxembourg	01/05/2018 to 31/12/2018
Member of the Executive Committee and Group General Counsel, Scout24 AG, Berlin	01/10/2015 to 30/04/2018
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 Committees, ADO Properties S.A., Luxembourg	
Member and Vice-chairperson of the Supervisory Board, Assmann Beraten + Planen AG, Berlin	
Sascha Hettrich	Member since 05/03/2018
Member of the presidential and nomination committee, TLG IMMOBILIEN AG, Berlin	since 01/01/2019
Member of the audit committee, TLG IMMOBILIEN AG, Berlin	since 01/01/2019
Chairperson of the project development committee, TLG IMMOBILIEN, Berlin	member since 29/11/2017 and Chairperson since 23/04/2018
Member of the Supervisory Board, WCM Beteiligungs- und Grundbesitz-AG, Frankfurt/Main	since 06/06/2018
Managing director, Hettrich Tomorrow GmbH	
CEO, Vivion Capital Partners S.A., Luxembourg	since October 2018
Chairperson of the shareholders' committee, Lianeo Real Estate GmbH, Berlin	since October 2018
Stefan E. Kowski	Member since 21/02/2018
Partner, Novalpina Capital LLP, London	
Jonathan Lurie	Member since 15/02/2019
Senior Adviser, Real Estate, McKinsey & Company, London,	since 2018
Managing Partner, Realty Corporation Ltd., London	since 2018
Frank D. Masuhr	Member from 10/02/2017 to 31/01/2018
Chairperson of the project development committee, TLG IMMOBILIEN, Berlin	29/11/2017 to 31/01/2018
Vice-chairperson of the Supervisory Board, WCM Beteiligungs- und Grundbesitz-AG, Frankfurt	since 20/02/2018
Co-founder and Managing Partner, Vermont Partners AG, Baar (Switzerland)	
Dr. Claus Nolting	Member from 05/09/2014 to 31/12/2018
Member of the audit committee, TLG IMMOBILIEN AG, Berlin	25/09/2015 to 31/12/2018
Member of the presidential and nomination committee, TLG IMMOBILIEN AG, Berlin	07/03/2017 to 31/12/2018
Lawyer and consultant	
Vice-chairperson of the Supervisory Board, IKB Deutsche Industriebank, Düsseldorf	
Chairperson of the risk and audit committee, IKB Deutsche Industriebank, Düsseldorf	
Member of the nomination committee, IKB Deutsche Industriebank, Düsseldorf	
Member of the executive committee, IKB Deutsche Industriebank, Düsseldorf	
Member of the remuneration management committee, IKB Deutsche Industriebank, Düsseldorf	
Member of the Supervisory Board, Hamburg Trust Real Estate Management GmbH, Hamburg	
Member of the Supervisory Board, LEG Immobilien AG, Düsseldorf	
Chairperson of the Supervisory Board, MHB-Bank AG, Frankfurt/Main	

Elisabeth Talma Stheeman	Member from 25/09/2014 to 29/01/2018
Member of the audit committee of the Supervisory Board, TLG IMMOBILIEN AG, Berlin	01/10/2014 to 29/01/2018
Independent Non-Executive Board Director, London	
Governor of the London School of Economics (LSE), London	
Vice-chairperson of the financial committee, London School of Economics (LSE), London	
Senior Advisor, Bank of England/Prudential Regulation Authority (PRA), London	from 01/09/2015 to 18/02/2018
External Member of Financial Policy Committee, Bank of England, London	since 19/02/2018
Member of the Supervisory Board, Aareal Bank AG, Wiesbaden	
Vice-chairperson of the risk committee, Aareal Bank AG, Wiesbaden	
Member of the technology and innovation committee, Aareal Bank AG, Wiesbaden	
Member of the Supervisory Board, Korian SA, Paris	
Member of the audit committee, Korian SA, Paris	
Helmut Ullrich	Member since 23/07/2015
Chairperson of the audit committee, TLG IMMOBILIEN AG, Berlin	since 13/08/2015
Member of the capital market and acquisitions committee, TLG IMMOBILIEN, Berlin	since 10/11/2016
Member of the project development committee, TLG IMMOBILIEN, Berlin	since 29/11/2017
Chairperson of the Supervisory Board, WCM Beteiligungs- und Grundbesitz-AG, Frankfurt/Main	since February 2018
Member of the Supervisory Board, GSW Immobilien AG, Berlin	until 26/06/2018
Chairperson of the audit committee, GSW Immobilien AG, Berlin	until 26/06/2018

H.12 OTHER FINANCIAL OBLIGATIONS

As at the reporting rate, the other financial obligations of the Group consisted of EUR k 1,654 (previous year EUR k 1,304) in future payments (net) resulting from operating leases and a commitment of EUR k 7,352 (previous year EUR k 6,625) 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 1,289 (previous year EUR k 924), as well as vehicle lease contracts for its fleet of vehicles with a payment obligation of EUR k 202 (previous year EUR k 235). There are also rental agreements on the leasing of space for archiving purposes with a payment obligation of EUR k 163 (previous year EUR k 105).

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 2018 financial year totalled EUR k 211 (previous year EUR k 271).

H.13 SHAREHOLDING LIST

As at 31 December 2018, TLG IMMOBILIEN holds interests in the following fully consolidated companies:

	Name and registered offices of the company	Shareholding	Equity as at 31/12/2018 in EUR k	Results of the 2018 financial year in EUR k	Shareholding Direct/indirect
1	Aschgo GmbH & Co. KG, Berlin[1]	94.00 %	6,772	18	Indirect
2	Barisk GmbH & Co. KG, Berlin[1]	94.00 %	3,656	102	Indirect
3	Berkles GmbH & Co. KG, Berlin[1]	94.00 %	3,369	52	Indirect
4	Greenman 1D GmbH, Berlin[2,4]	94.00 %	5,286	0	Indirect
5	Hotel de Saxe an der Frauenkirche GmbH, Dresden[2,3]	100.00 %	22,200	0	Direct
6	Main Triangel Gastronomie GmbH, Berlin[2]	100.00 %	26	13	Indirect
7	TLG EH1 GmbH Berlin[2,3]	94.90 %	17,062	445	Direct
8	TLG EH2 GmbH, Berlin[2,3]	94.90 %	27,308	1,307	Direct
9	River Berlin Immobilien GmbH & Co. KG, Berlin[1]	94.90 %	2,028	727	Indirect
10	River Bonn Immobilien GmbH & Co. KG, Berlin[1]	94.90 %	2,292	413	Indirect
11	River Düsseldorf Immobilien GmbH & Co. KG, Berlin[1]	94.90 %	1,203	167	Indirect
12	River Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90 %	14,327	537	Indirect
13	TLG CCF GmbH, Berlin[2,3,5]	100.00 %	94,025	0	Direct
14	TLG FAB GmbH (formerly TLG FAB S.à r.l., Luxembourg)[2,3]	86.92 %	27,896	0	Direct
15	TLG Fixtures GmbH, Berlin[2,3]	100.00 %	359	0	Direct
16	TLG MVF GmbH, Berlin[2,3,5]	100.00 %	73,025	0	Direct
17	TLG Sachsen Forum GmbH, Berlin[2,3]	100.00 %	24,104	0	Direct
18	Triangel Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90 %	13,752	– 767	Indirect
19	WCM Besitzgesellschaft mbH & Co. KG, Berlin[1]	100.00 %	19	0	Indirect
20	WCM Beteiligungs- und Grundbesitz-AG, Frankfurt/Main	91.59 %	249,603	6,317	Direct
21	WCM Beteiligungsgesellschaft mbH & Co. KG[1]	100.00 %	– 2,439	– 1,382	Indirect
22	WCM Handelsmärkte I GmbH, Berlin[2]	94.90 %	298	90	Indirect
23	WCM Handelsmärkte II GmbH, Berlin[2]	94.90 %	864	364	Indirect
24	WCM Handelsmärkte III GmbH & Co. KG, Berlin[1]	88.00 %	– 2,211	376	Indirect
25	WCM Handelsmärkte IV GmbH & Co. KG, Berlin[1]	94.90 %	17,909	2,254	Indirect
26	WCM Handelsmärkte IX GmbH & Co. KG, Berlin[1]	94.80 %	6,321	– 88	Indirect
27	WCM Handelsmärkte V GmbH & Co. KG, Berlin[1] (from 28/01/2019 TLG BN1 GmbH & Co. KG, Berlin)	100.00 %	63	– 19	Indirect
28	WCM Handelsmärkte VI GmbH & Co. KG, Berlin[1] (from 28/01/2019 TLG Reserve1 GmbH & Co. KG, Berlin)	100.00 %	63	– 19	Indirect
29	WCM Handelsmärkte VII GmbH & Co. KG, Berlin[1]	94.90 %	5,954	– 391	Indirect
30	WCM Handelsmärkte VIII GmbH & Co. KG, Berlin[1]	94.00 %	– 133	57	Indirect
31	WCM Handelsmärkte X GmbH & Co. KG, Berlin[1]	94.80 %	5,425	– 579	Indirect
32	WCM Handelsmärkte XI GmbH & Co. KG, Berlin[1]	94.80 %	4,433	– 165	Indirect
33	WCM Handelsmärkte XII GmbH & Co. KG, Berlin[1]	94.80 %	2,012	– 176	Indirect
34	WCM Handelsmärkte XIII GmbH & Co. KG, Berlin[1]	94.00 %	1,869	71	Indirect
35	WCM Handelsmärkte XIV GmbH & Co. KG, Berlin[1]	94.00 %	5,115	605	Indirect
36	WCM Handelsmärkte XV GmbH & Co. KG, Berlin[1]	94.00 %	5,615	865	Indirect
37	WCM Handelsmärkte XVI GmbH & Co. KG, Berlin[1]	94.00 %	1,279	313	Indirect
38	WCM Handelsmärkte XVII GmbH, Berlin[2]	94.90 %	962	– 58	Indirect
39	WCM Office I GmbH, Berlin[2]	94.90 %	4,051	429	Indirect
40	WCM Office II GmbH & Co. KG, Berlin[1]	94.90 %	2,835	152	Indirect
41	WCM Office III GmbH, Berlin[2]	94.90 %	703	85	Indirect
42	WCM Office IV GmbH & Co. KG, Berlin[1]	94.90 %	2,117	178	Indirect
43	WCM Technical Services GmbH, Berlin[2]	100.00 %	28	7	Indirect
44	WCM Technical Services II GmbH, Berlin[2]	100.00 %	34	– 3	Indirect
45	WCM Vermögensverwaltung GmbH & Co. KG, Berlin[1]	100.00 %	33,941	158	Indirect
46	WCM Verwaltungs GmbH, Berlin[2]	100.00 %	114	33	Indirect
47	WCM Verwaltungs II GmbH, Berlin[2]	100.00 %	78	50	Indirect
48	WCM Verwaltungs III GmbH & Co. KG, Berlin[1]	100.00 %	– 2,250	131	Indirect
49	WCM Verwaltungs IV GmbH & Co. KG, Berlin[1]	100.00 %	– 347	– 143	Indirect
50	WCM Verwaltungs V GmbH, Berlin[2]	100.00 %	37	8	Indirect
51	WCM Verwaltungs VI GmbH, Berlin[2]	100.00 %	31	5	Indirect
52	WCM Verwaltungs VII GmbH, Berlin[2]	100.00 %	58	22	Indirect
53	TLG HH1 GmbH & Co. KG, Berlin[1]	100.00 %	58,521	0	Direct
54	Trinity Projektentwicklungsgesellschaft mbH, Berlin[2] (from 28/01/2019 TLG Beteiligungsgesellschaft mbH, Berlin)	100.00 %	25	0	Direct

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 IMMOBIIEN AG
4 Profit transfer agreement with WCM Beteiligungsgesellschaft mbH & Co. KG
5 Deviating financial year; most recent annual financial statements as at 30 June 2018

Compared to the previous year, two companies were added to the portfolio of fully consolidated companies. For more information, see sections C.2 and C.3.

The financial statements have not yet been ratified in each case. The equity and net income are based on German GAAP.

H.14 SUBSEQUENT EVENTS

The negotiations concerning the sale of a portfolio of retail properties were so far progressed in early March 2019 that a contract is likely to be concluded in March for a sales price of around EUR 118 m. In this case, net income of approx. EUR 6,5 m would be generated from the sale with regard to the IFRS value recognised as at 31 December 2018. No reclassification as properties held for sale in accordance with IFRS 5 was carried out as at 31 December 2018 as the company was not sufficiently certain that the sales process would be completed successfully within twelve months.

The local court of Berlin-Charlottenburg has appointed Mr Jonathan Lurie as another member of the Supervisory Board of TLG IMMOBILIEN AG with effect from 15 February 2019 until the end of the next general meeting on 21 May 2019. As such, Mr Lurie is taking over the role of Dr Claus Nolting who resigned with effect from 31 December 2018.

Additionally, 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 2018 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, 6 March 2019

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 2018, and the consolidated statement of financial position as at 31 December 2018, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2018, 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 2018. In accordance with the German legal requirements, we have not audited the content of the responsibility statement included in the section "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.

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 2018 and of its financial performance for the fiscal year from 1 January to 31 December 2018, 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 included in the section "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.

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 2018. 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. These are in particular assumptions 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 their 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.

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. MEASUREMENT OF GOODWILL ARISING FROM THE ACQUISITION OF WCM BETEILIGUNGS- UND GRUNDBESITZ-AKTIENGESELLSCHAFT, FRANKFURT AM MAIN

Reasons why the matter was determined to be a key audit matter

The Management Board of TLG Immobilien AG tests the recognized goodwill each year for impairment. The allocation of goodwill to the group of cash-generating units and the impairment for each group of cash-generating units are highly dependent on assessments and assumptions by the Management Board and are therefore subject to judgment.

In fiscal year 2018, the provisional allocation to the groups of cash-generating units was concluded with the result that goodwill at the overall group level at TLG Immobilien AG must be examined. The allocation of goodwill to the groups of cash-generating units can have an impact on the outcome of the impairment tests.

The impairment test as of 31 December 2018 resulted in a full impairment loss on the goodwill from the acquisition of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt am Main ("WCM"), and gave rise to a write-off of the entire goodwill recognized as of 31 December 2017.

In light of its materiality for the assets, liabilities and financial performance in the consolidated financial statements and the use of judgment with regard to impairment testing, we consider the measurement of the goodwill arising from the acquisition of WCM to be a key audit matter.

Auditor's response

When analyzing the allocation of goodwill to the cash-generating units we obtained an understanding of whether the identifiable group of assets that generates cash inflows was used as a basis in accordance with IAS 36 Impairment of assets.

We discussed with the Management Board the final allocation of the goodwill provisionally allocated in the prior year to groups of cash-generating units and assessed this in terms of consistency with the internal reporting structure.

To assess the impairment of goodwill we obtained an understanding of the methodology used for impairment testing in relation to the requirements of IAS 36 Impairment of assets.

With regard to the determination of the recoverable amount of each group of the cash-generating units using a discounted cash flow method, our procedures included a comparison of the expected cash flows with the forecast prepared by the Management Board and an assessment of the planning data. Where a significant portion of the recoverable amount from the cash flow projections arises after the detailed planning period (perpetual annuity phase), we assessed the long-term growth rate for this phase by reference to industry-specific ratios.

With regard to the capitalization rate used, we analyzed the various inputs to determine whether they reflect industry-specific market expectations.

In addition, we assessed the information provided in the notes to the consolidated financial statements on the measurement of goodwill in the sections "Intangible fixed assets," "Impairments of non-financial assets" and "Business combinations" in terms of the requirements under IAS 36 Impairment of assets.

Our audit procedures did not lead to any reservations relating to the valuation of the goodwill arising as a result of the acquisition of WCM.

Reference to related disclosures

With regard to the recognition and measurement policies applied for goodwill, we refer to the information provided in the notes to the consolidated financial statements in section "C.3 Business combinations," "D.3 Intangible assets," "D.4 Impairments of non-financial assets" and to the related information on the use of judgment by the Management Board and sources of estimation uncertainty in section "D.23 Major discretionary decisions and estimates" in the notes to the consolidated financial statements.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. 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 section "Corporate governance" pursuant to Sec. 289 f (2) in conjunction with Sec. 315 d HGB and the declaration on the Corporate Governance Code in accordance with Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] in the report on the position of the Company and the Group and 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 "We create value," "Report of the supervisory board," "EPRA key figures" 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 annual 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.

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 the group auditor by the annual general meeting held on 25 May 2018 and were engaged by the supervisory board on 4 December 2018. We served as the auditor of TLG IMMOBILIEN GmbH from fiscal year 1999 to 2013 and of TLG IMMOBILIEN AG since 2014 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, 19 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Kreninger	Pilawa
Auditor	Auditor
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

8 MAY 2019
Publication quarterly financial report Q1/2019

21 MAY 2019
Annual general meeting

12 AUGUST 2019
Publication quarterly financial report Q2/2019

6 NOVEMBER 2019
Publication quarterly financial report Q3/2019

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QUARTERLY PERFORMANCE

	Unit	Q1 2018	Q1 2017	Q2 2018	Q2 2017	Q3 2018	Q3 2017	Q4 2018	Q4 2017
Results of operations									
Rental income	in EUR k	54,967	39,229	54,603	39,252	56,777	38,820	57,539	51,009
Net operating income from letting activities (NOI)	in EUR k	47,591	34,394	48,687	36,753	51,458	34,617	48,990	47,784
Disposal profits	in EUR k	0	0	0	169	0	180	7,833	2,212
Net income	in EUR k	19,717	15,709	151,141	60,823	29,242	51,965	110,846	155,876
FFO	in EUR k	31,648	21,126	35,987	25,379	32,762	23,571	33,593	32,597
FFO per share[1]	in EUR k	0.31	0.29	0.35	0.35	0.32	0.31	0.32	0.34

	Unit	31/12/2018	30/09/2018	30/06/2018	31/03/2018	31/12/2017
Balance sheet metrics						
Investment property	in EUR k	4,067,527	3,712,866	3,651,646	3,465,835	3,383,259
Cash and cash equivalents	in EUR k	153,893	136,609	109,120	164,384	201,476
Total assets	in EUR k	4,320,847	4,076,931	4,048,349	3,860,856	3,835,748
Equity	in EUR k	2,157,239	2,047,970	2,020,746	1,955,969	1,936,560
Equity ratio	in %	49.9	50.2	49.9	50.7	50.5
Interest-bearing liabilities	in EUR k	1,579,442	1,587,478	1,593,284	1,539,889	1,541,692
Net debt	in EUR k	1,425,549	1,450,869	1,484,164	1,375,505	1,340,216
Net LTV[2]	in %	34.7	39.0	39.9	39.6	39.2
EPRA NAV, adjusted	in EUR k	2,715,723	2,435,158	2,401,176	2,260,973	2,112,689
EPRA NAV per share, adjusted[1]	in EUR	26.27	23.58	23.26	22.09	20.71

	Unit	31/12/2018	30/09/2018	30/06/2018	31/03/2018	31/12/2017
Key portfolio performance indicators						
Property value[3]	in EUR k	4,109,449	3,722,121	3,665,478	3.476.592	3,400,582
Lettable area	in sqm	1,912,793	1,915,946	1,897,537	1,914,473	1,875,072
Property value per sqm	in EUR/sqm	2,148	1,943	1,932	1,816	1,814
Properties	number	409	414	419	425	426
EPRA Vacancy Rate	in %	3.3	3.6	3.4	3.8	3.6
WALT	in years	6.1	5.9	6.0	6.1	6.3
Annualised in-place rent[4]	in EUR k	227,154	225,540	221,636	219,864	214,057
Average rent	in EUR/sqm	10.44	10.38	10.26	10.12	10.05
In-place rental yield	in %	5.5	6.1	6.0	6.3	6.3
Average market rent	in EUR/sqm	11.27	10.54	10.49	10.07	10.05
In-place rental yield on market rent	in %	6.2	6.5	6.5	6.6	6.6

[1] Total number of shares as at 31 December 2017: 102.0 m, as at 31 December 2018: 103.4 m.
The weighted average number of shares was 79.7 m in 2017 and 102.8 m in 2018.
[2] Calculation: Net debt divided by real estate assets; for the composition *see page 74*
[3] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5.
[4] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

ANNUAL PERFORMANCE

	Unit	2014	2015	2016	2017	2018
Results of operations						
Rental income	in EUR k	114.776	127.392	140.464	168.310	223.886
Net operating income from letting activities (NOI)	in EUR k	100.263	114.096	125.588	154.904	196.726
Disposal profits	in EUR k	10.611	8.743	6.391	10.377	7.833
Net income	in EUR k	88.650	130.862	94.109	284.373	310.946
FFO	in EUR k	52.370	63.987	76.877	102.683	133.990
FFO per share[1]	in EUR k	0,97	1,03	1,14	1,29	1,30

	Unit	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Balance sheet metrics						
Investment property	in EUR k	1,489,597	1,739,474	2,215,228	3,383,259	4,067,527
Cash and cash equivalents	in EUR k	152,599	183,736	68,415	201,476	153,893
Total assets	in EUR k	1,738,000	1,999,461	2,344,763	3,835,748	4,320,847
Equity	in EUR k	747,964	967,874	1,009,503	1,936,560	2,157,239
Equity ratio	in %	43.0	48.4	43.1	50.5	49.9
Interest-bearing liabilities	in EUR k	770,447	782,688	1,040,412	1,541,692	1,579,442
Net debt	in EUR k	617,848	598,952	971,997	1,340,216	1,425,549
Net LTV[2]	in %	40.3	33.6	43.4	39.2	34.7
EPRA NAV, adjusted	in EUR k	914,008	1,171,594	1,252,131	2,112,689	2,715,723
EPRA NAV per share, adjusted[1]	in EUR	14.91	17.37	18.57	20.71	26.27

	Unit	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
Key portfolio performance indicators						
Property value[3]	in EUR k	1,525,986	1,765,834	2,241,615	3,400,582	4,109,449
Lettable area	in sqm	1,294,815	1,295,443	1,418,975	1,875,072	1,912,793
Property value per sqm	in EUR/sqm	1,179	1,363	1,579	1,814	2,148
Properties	number	460	418	404	426	409
EPRA Vacancy Rate	in %	3.9	3.7	3.8	3.6	3.3
WALT	in years	7.4	6.5	6.1	6.3	6.1
Annualised in-place rent[4]	in EUR k	118,859	131,379	155,276	214,057	227,154
Average rent	in EUR/sqm	8.38	9.23	9.67	10.05	10.44
In-place rental yield	in %	7.8	7.4	6.9	6.3	5.5
Average market rent	in EUR/sqm				10.05	11.27
In-place rental yield on market rent	in %				6.6	6.2

[1] Before the company became an Aktiengesellschaft (stock corporation) on 5 September 2014, it was a limited liability company (GmbH). Therefore, for the purposes of comparison, the value of the issued shares is the value that would have existed if the company had always been an Aktiengesellschaft with the same number of shares.
Total number of shares as at 31 December 2014/2015/2016/2017/2018: 52.0 m/61.3 m/67.4 m/67.4 m/102 m/103.4 m
Weighted average number of shares per year 2014/2015/2016/2017/2018: 52.0 m/53.8 m/62.0 m/67.4 m/79.7 m/102.8 m
[2] Calculation: Net debt divided by real estate assets; for the composition see page 74
[3] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5
[4] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.