ANNUAL FINANCIAL STATEMENTS 2018

TLG IMMOBILIEN AG

TLG IMMOBILIEN

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS

for 2018

	2018 EUR	2018 EUR	2017 TEUR
1. Revenue		210,653,197.76	249,014
2. Increase in work in progress		45,335.09	8,002
3. Other operating income		17,026,771.74	20,069
		227,725,304.59	277,085
4. Cost of materials			
a) Disposals of real estate inventory at book value	15,657,720.33		51,602
b) Cost of purchased services	64,398,212.80		52,783
		80,055,933.13	104,385
5. Personnel expenses			
a) Salaries	15,542,568.19		9,804
b) Social security contributions and expenses for pensions and other employee benefits of which for pensions EUR 147,026.38 (previous year EUR k 118)	1,840,645.62		1,326
		17,383,213.81	11,130
6. Depreciation, amortization and write-downs on fixed intangible assets and property, plant and equipment		53,659,844.61	58,646
7. Other operating expenses		16,682,710.19	15,459
		59,943,602.85	87,465
8. Income from investments of which from affiliated companies EUR 2,106,692.20 (previous year EUR k 4.881)		2,106,692.20	4,881
9. Income from transfer of profits		6,332,919.53	2,087
10. Other interest and similar income of which from affiliated companies EUR 4,866,283.84 (previous year EUR k 32)		5,259,786.24	283
11. Write-downs on financial assets		59,658,944.46	0
12. Interest and similar expenses of which to affiliated companies EUR 850.03 (previous year EUR k 3)		25,368,866.35	47,467
13. Expenses from assumption of losses		291,020.57	5,984
14. Income taxes of which income (-)/ expenses relating to the changes in deferred taxes EUR 5,558,032.95 (previous year EUR k -54,233)		8,004,499.09	-55,570
15. Earnings after taxes		-19,680,329.65	96,835
16. Other taxes		-20.00	1
17. Net loss for the year (Net income for the year)		-19,680,309.65	96,834
18. Retained profits brought forward		673,050.11	1,484
19. Withdrawal from the capital reserve		77,305,800.37	0
20. Withdrawal from other retained earnings		37,342,956.83	0
21. Appropriation to other retained earnings		0.00	13,000
22. Net profit		95,641,497.66	98,318

STATEMENT OF FINANCIAL POSITION

As at 31/12/2018

ASSETS	EUR	31/12/2018 EUR	31/12/2017 TEUR
A. FIXED ASSETS			
I. Intangible assets			
1. Purchased software	2,483,029.04		197
2. Prepayments made	0.00		839
		2,483,029.04	1,036
II. Property, plant and equipment			
1. Land, landrights and buildings including buildings on third-party land	1,499,115,733.07		1,466,938
2. Technical equipment	604,458.15		682
3. Other equipment, operating and office equipment	284,016.38		351
4. Prepayments and assets under construction	15,411,552.36		26,612
		1,515,415,759.96	1,494,583
III. Financial assets			
1. Shares in affilitaed companies	749,069,653.17		710,418
2. Loans to affiliated companies	239,005,850.92		240,640
3. Other loans	2,518,953.66		2,519
		990,594,457.75	953,577
B. CURRENT ASSETS			
I. Inventories			
1. Real estate	142,095.20		418
2. Work in progress	27,708,388.31		27,663
		27,850,483.51	28,081
II. Receivables and other assets			
1. Trade receivables	4,846,206.69		5,230
2. Receivables from affiliated companies	9,469,691.29		2,091
3. Other assets	1,120,899.78		1,908
		15,436,797.76	9,229
III. Cash in hand and bank balances		121,133,371.20	185,675
C. PREPAID EXPENSES		6,073,459.84	6,597
		2,678,987,359.06	2,678,778

EQUITY AND LIABILITIES		EUR	31/12/2018 EUR	31/12/2017 TEUR
A.	**Equity**			
I.	**Subscribed capital** Contingent capital: EUR 24,049,856.00 (previous year EUR k 25,406)		103,384,729.00	102,029
II.	**Capital reserves**		1,064,000,000.00	1,110,921
III.	**Retained earnngs**			
	Other retained earnings		0.00	37,343
IV.	**Net profit**		95,641,497.66	85,318
			1,263,026,226.66	1,335,611
B.	**SPECIAL ITEM FOR INVESTMENT SUBSIDIES AND GRANTS**		10,696,504.41	11,168
C.	**PROVISIONS**			
1.	Provisions for pensions and similar obligations	6,576,753.00		6,069
2.	Tax provisions	946,351.52		1,121
3.	Other provisions	20,357,876.44		13,892
			27,880,980.96	21,082
D.	**LIABILITIES**			
1.	Bonds	400,512,328.77		400,000
2.	Liabilities due to financial institutions	899,529,246.39		854,151
3.	Prepayments received	27,845,239.11		30,777
4.	Trade payables	6,319,845.62		3,520
5.	Liabilities to affiliated companies	30,103,548.26		17,541
6.	Other liabilities of which from taxes EUR 2,497,317.46 (previous year EUR k 177)	6,934,917.62		4,175
			1,371,245,125.77	1,310,164
E.	**DEFERRED INCOME**		580,488.31	753
F.	**DEFERRED TAX LIABILITIES**		5,558,032.95	0
			2,678,987,359.06	2,678,778

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF TLG IMMOBILIEN AG, BERLIN

1. GENERAL

The financial statements for the 2018 financial year were prepared in accordance with the provisions of the German Commercial Code (HGB) for large companies as well as the German Stock Corporation Act (AktG). The total cost method was used to present the statement of profit or loss.

The company is registered in the commercial register of the local court of Berlin Charlottenburg under the name TLG IMMOBILIEN AG with headquarters in Berlin and the number HRB 161314 B.

The report on the position of TLG IMMOBILIEN AG (TLG IMMOBILIEN) and of the Group was compiled in accordance with Sec. 315 (5) HGB.

The annual financial statements and the report on the position of the company and of the Group of TLG IMMOBILIEN for the 2018 financial year will be submitted to the operator of the Federal Gazette and published therein.

The annual financial statements of TLG IMMOBILIEN as well as the annual report for the 2018 financial year are also available online at *www.tlg.eu*.

The shares of TLG IMMOBILIEN are listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

2. ACCOUNTING AND MEASUREMENT METHODS

The following accounting and measurement methods were used again in the preparation of the statement of financial position and the statement of profit or loss:

Intangible assets are recognised at their historical cost and, provided that they deteriorate, are amortised based on their useful lives (three or five years; linear method).

Property, plant and equipment is recognised at the lower of historical cost or fair value if its impairment is permanent and is depreciated using the linear method based on its conventional useful life. Interest on liabilities is not capitalised.

Land, land rights and buildings used for long-term business operations are measured at the lower of historical cost or fair value and, provided that they deteriorate, are depreciated based on their conventional useful lives.

Write-downs and reversals of write-downs are carried out according to the statement on accounting "Bewertung von Immobilien des Anlagevermögens in der Handelsbilanz" (IDW RS IFA 2) published by the German Institute of Auditors (IDW) on 27 April 2015. An asset is only presumed to be impaired temporarily if verifiable circumstances make it reasonable to expect that there will no longer be a reason to write it down in the medium term, i.e. within a period of normally three to five years. The write-down is reversed in the financial year in which the reasons for the write-down no longer exist.

Low-value assets with a net individual value of up to EUR 800 (EUR 150 up to 31 December 2017) have been depreciated or amortised in full or recognised as expenses in the year in which they were acquired (acquisition after 31 December 2017); it is assumed that they are disposed of immediately. With regard to assets (acquired before 31 December 2017) with a net individual value of between EUR 150 and EUR 1,000, for the sake of simplicity the collective tax item that has to be formed each year has been added to the statement of financial position and depreciated at a rate of 20% p.a. in its year of addition and in the four following years.

Financial assets are recognised at historical cost or at the lower of historical cost or fair value if they are permanently impaired and loans are always recognised at their nominal value.

Properties classed as inventories are recognised at the lower of historical cost or fair value.

The work in progress is primarily the result of the capitalisation of unpaid operating costs.

Receivables and other assets have all been recognised at their nominal value. Identifiable risks were taken into consideration by means of individual allowances.

The reversal of the special item for investment subsidies and grants is based on the useful lives of the subsidised assets.

The provisions for pensions and similar obligations are determined by means of the projected unit credit method in combination with the 2018G mortality tables published by Dr Klaus Heubeck. They were discounted using the average market interest rate based on an assumed remaining term of 15 years of 3.21% (previous year 3.68%). This is based on the interest rates published by the German Central Bank (Deutsche Bundesbank) according to Sec. 253 (2) HGB and the method specified in the German Regulation on the Discounting of Provisions (RückAbzinsV). The discount rate is based on the average market interest rate for the past ten years. The recognition of the provisions based on the seven-year and ten-year average interest rates produces a difference of EUR 741,894 which is subject to distribution restrictions according to Sec. 253 (6) HGB. As expected, salary increases and fluctuations were not taken into account. Expected pension increases were taken into account at a rate of 2% (previous year 2%) or, if committed to, at a rate of 1% (previous year 1%).

The tax provisions and other provisions take all unknown liabilities and potential losses from pending transactions into account. They have been recognised at the settlement amount deemed necessary using equitable business judgement (i.e. including future increases in costs and prices). The provisions are therefore short-term and have not been discounted.

Liabilities were recognised at their settlement amounts.

In order to calculate deferred taxes due to temporary or semi-permanent differences between the measurement of assets, liabilities, deferrals and accruals under commercial law and their measurement for tax purposes or tax loss carryforwards, the amounts of the resulting tax burden and relief are measured using the individual tax rates of the company as at the settlement of the differences and are not discounted. Deferred assets and liabilities have been offset. Surplus deferred taxes do not need to be recognised if the option to omit them is utilised.

The following accounting and measurement method was used wherever valuation units were formed according to Sec. 254 HGB:

Valuation units have been formed in order to recognise economic hedging relationships in the statement of financial position. Therefore, positive and negative changes in value resulting from the hedged risk which balance one another out have been presented without affecting the statement of profit or loss (net hedge presentation method).

3. ASSETS

The statement of changes in fixed assets, which is a component of the notes, contains information on the changes in assets.

The shares in affiliated companies have increased to EUR k 749,070 (previous year EUR k 710,418). As at 31 December 2018, the carrying amount of the shares of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (WCM AG) is EUR k 375,300 (previous year EUR k 403,218. In the 2018 financial year, a write-down in the amount of EUR k 59,659 was carried out in accordance with Sec. 253 (3) sentence 5 HGB. For the disclosures regarding shares in affiliated companies, please refer to the shareholding list which is a component of these notes.

Of the loans to affiliates totalling EUR k 239,006 (previous year EUR k 240,640), EUR k 197,132 (previous year EUR k 190,920) is attributable to a loan to WCM AG and EUR k 14,594 (previous year EUR k 18,337) and EUR k 27,280 (previous year EUR k 31,384) are attributable to TLG EH1 GmbH and TLG EH2 GmbH for the purposes of refinancing financial liabilities.

As in the previous year, the trade receivables and receivables from affiliated companies were due in less than one year.

Of the receivables from affiliated companies, EUR k 9,470 (previous year EUR k 2,091) is essentially attributable to the transfer of profits under profit and loss transfer agreements (EUR k 6,333).

Of the other assets, EUR k 0.1 m is due in more than one year (previous year EUR 0.2 m).

4. EQUITY AND LIABILITIES

SHARE CAPITAL

TLG IMMOBILIEN has share capital of EUR 103.4 m. The share capital is divided into 103,384,729 no-par value shares with a theoretical par value of EUR 1.00 per share.

CAPITAL INCREASES IN EXCHANGE FOR CONTRIBUTIONS IN KIND

On 27 June 2017, TLG IMMOBILIEN published the offer document for its voluntary public takeover offer to the shareholders of WCM AG to acquire all of the shares in WCM AG. The takeover offer was accepted for a total of 117,505,327 shares in WCM. This corresponded to around 85.89% of the share capital and voting rights of WCM AG.

Following the capital increase in exchange for contributions in kind as part of the voluntary public takeover offer, making partial use of the Authorised Capital 2016, the company's share capital was increased by EUR k 20,436 by the issuance of 20,435,708 no-par value bearer shares. The contributions in kind towards the new shares as part of the takeover capital increase were provided by contributing 117,505,321 WCM shares. The takeover capital increase was registered on 6 October 2017.

Under the control agreement entered into the commercial register on 9 February 2018, TLG IMMOBILIEN undertook that upon request by outside shareholders of WCM AG, it will acquire their shares in WCM AG in exchange for new no-par value bearer shares of TLG IMMOBILIEN, each with a notional value of EUR 1.00, at an exchange ratio of four shares of TLG IMMOBILIEN for 23 shares of WCM AG. Due to a pending legal challenge at the district court of Frankfurt/Main, the deadline has now been extended in accordance with Sec. 305 (4) AktG from 16 April 2018 to a date at least two months after the date on which the decision regarding the last motion in the proceedings has been published in the Federal Gazette.

More of the shareholders of WCM AG accepted the swap offer in the 2018 financial year. A total of 7,796,471 WCM shares have been transferred to TLG IMMOBILIEN. TLG IMMOBILIEN increased the share capital by EUR k 1,356, divided into 1,355,908 shares, from the contingent capital (Contingent Capital 2017/III).

AUTHORISED CAPITAL

By resolution of the extraordinary general meeting on 22 November 2017 and with the consent of the Supervisory Board, the Management Board is authorised to increase the share capital of the company by up to EUR 20,405,764.00 in exchange for cash contributions by issuing up to 20,405,764 new shares by 21 November 2022 (Authorised Capital 2017/II).

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.

CONTINGENT CAPITAL

By resolution of the general meeting on 22 November 2017, the share capital was increased on a contingent basis by up to EUR 20,405,764.00 through the issuance of up to 20,405,764 new shares (Contingent Capital 2017/II). The contingent capital increase will enable the company to provide shares to creditors with any convertible bonds or similar instruments that can be utilised by 21 November 2022.

Furthermore, the share capital has been increased by up to EUR 5,000,000.00 by the issuance of up to 5,000,000 new shares (Contingent Capital 2017/III). The contingent capital increase will enable the company to provide exit compensation consisting of shares in the company to the outside shareholders of WCM AG in line with the provisions of the control agreement signed with them. TLG IMMOBILIEN increased the share capital by EUR k 1,356, divided into 1,355,908 shares, from the contingent capital (Contingent Capital 2017/III). The Contingent Capital 2017/III amounts to EUR k 3,644.

CAPITAL RESERVES

Due to the increases in share capital, the capital reserves have increased by EUR k 30,384 from EUR k 1,110,921 to EUR k 1,141,306. The Management Board has withdrawn EUR k 77,306 from the free reserves in connection with the preparation of the annual financial statements. As at 31 December 2019, the capital reserves amounted to EUR k 1,064,000.

RETAINED EARNINGS

While preparing the annual financial statements, the Management Board withdrew EUR k 37,343 from other retained earnings.

NET RETAINED PROFIT

By resolution of the general meeting on 25 May 2018, a dividend of EUR k 84,645 was paid to the shareholders from the net retained profit for 2017 and EUR k 673 was transferred to profit carryforward. Besides the aforementioned amounts released from the capital reserves and retained earnings, the net retained profits therefore comprises a profit carryforward of EUR k 673.

PROVISIONS

The other provisions totalling EUR 20.4 m mainly concern personnel expenses (EUR 1.4 m), long-term bonus schemes (EUR 1.1 m), expenses related to letting activities (EUR 8.7 m), outstanding invoices (EUR 1.6 m), and potential losses for interest rate hedges (EUR 3.1 m).

LIABILITIES

The liabilities have the following terms:

Liabilities	31/12/2018 Total EUR m	31/12/2018 Remaining term up to 1 year EUR m	31/12/2018 Remaining term 1–5 years EUR m	31/12/2018 Remaining term more than 5 years EUR m	31/12/2017 Total EUR m	31/12/2017 Remaining term up to 1 year EUR m
from the issuance of bonds	400.5	0.5	0.0	400.0	400.0	0
due to financial institutions	899.5	65.0	306.9	527.6	854.2	13.9
from prepayments received	27.8	27.8	0.0	0.0	30.8	30.8
from goods and services	6.3	5.9	0.3	0.1	3.5	3.5
to affiliated companies	30.1	30.1	0.0	0.0	17.5	17.5
other liabilities	6.9	6.6	0.1	0.2	4.2	4.2
Total	**1,371.1**	**135.9**	**307.3**	**927.9**	**1,310.2**	**69.2**

All liabilities due to financial institutions are secured by land charges.

There is no collateral for liabilities beyond the liabilities due to financial institutions.

The liabilities to affiliated companies (EUR 30.1 m) mainly consist of the claims of subsidiaries resulting from the cash management measures implemented by TLG IMMOBILIEN, although EUR k 291 is attributable to the assumption of losses under profit and loss transfer agreements.

Of the other liabilities totalling EUR 6.9 m, EUR 0.5 m consists of grants for leased properties that have to be passed on to the lessees in the form of reduced payments over the term of the lease.

The deferred income of EUR k 580 essentially consists of advance rent payments.

DEFERRED TAX LIABILITIES

The deferred tax assets and liabilities are due to the following items and have changed as follows compared to the previous year:

Deferred taxes on differences for	31/12/2018 EUR k	31/12/2017 EUR k	Change EUR k
Property, plant and equipment (offset)	−54,454	−34,135	−20,319
Inventories (properties intended for disposal)	4	0	4
Trade receivables	341	136	205
Special tax item (Sec. 6b EStG)	−19,831	−35,978	16,147
Pension provisions	707	584	123
Other provisions	1,576	1,296	280
Deferred taxes for temporary differences	**−71,658**	**−68,096**	**− 3,562**
Deferred tax assets on (tax) interest carryforward	3,339	7,015	−3,676
Deferred tax assets for unused losses	62,761	61,081	1,680
Deferred tax liabilities after offsetting	**−5,558**	**0**	**−5,558**

The calculation was based on a tax rate of 30.675%. This is determined by the currently applicable tax rates, indices and base amounts, as well as an average regional tax rate of 424%.

5. INCOME

The revenue of EUR 210.7 m (previous year EUR 249.0 m) comprises EUR 180.9 m (previous year EUR 164.6) from letting activities, EUR 25.0 m (previous year EUR 83.7 m) from the sale of land and EUR 4.7 m (previous year EUR 0.7 m) from other goods and services.

Of the other operating income totalling EUR 17.0 m, EUR 3.2 m is attributable to income from the reversal of provisions. It also contains EUR 0.3 m in income from other periods. It contains income of EUR 0.5 m from the reversal of the special item for investment subsidies and grants. The income from reversals of write-downs of land and buildings was EUR 10.6 m.

In particular, the positive net interest is due to the loan to WCM AG and loans to other subsidiaries.

6. EXPENSES

The amortisation of intangible assets and depreciation of property, plant and equipment contains write-downs to the lower fair value totalling EUR 2.3 m due to a permanent impairment.

The other operating expenses of EUR 16.7 m contain impairments of receivables and other assets (EUR 1.0 m).

The amortisation of financial assets totalling EUR 59.7 m is attributable to the write-down of the shares of WCM AG to their lower fair value.

Of the interest and other expenses of EUR 25.4 m, EUR 18.2 m is attributable to interest for loans and EUR 6.4 m is attributable to repayments and compensatory payments for interest rate hedges. The discounting of the pension provisions contains interest of EUR k 568 (previous year EUR k 462).

The income taxes comprise current income tax (EUR 2.8 m), deferred income tax (EUR 5.6 m) and prior-period tax income (EUR 0.4 m).

7. CONTINGENT LIABILITIES

FAIR COMPENSATION FOR OUTSIDE SHAREHOLDERS OF WCM AG

TLG IMMOBILIEN guarantees outside shareholders of WCM AG who do not wish to accept the exit compensation a fixed annual payment in the form of a guaranteed dividend as fair compensation for the duration of the domination agreement. The guaranteed dividend for each financial year of WCM AG and each bearer share of WCM representing a notional value of EUR 1.00 in the share capital of WCM AG amounts to a gross amount of EUR 0.13 per share (the “Gross Compensation Amount”), less any corporate income tax and solidarity surcharge at the prevailing rate for the relevant financial year (the “Net Compensation Amount”). Based on the circumstances at the time of the entering into force of the control agreement, corporate income tax at a rate of 15.0%, plus 5.5% solidarity surcharge thereon (i.e. EUR 0.02 for each no-par value share of WCM AG) are deducted from the Gross Compensation Amount. Based on the circumstances at the time of the entering into force of the control agreement, this results in a Net Compensation Amount of EUR 0.11 for each no-par value share of WCM AG for every full financial year of WCM AG. The control agreement has not yet been terminated. As at 31 December 2018, outside shareholders hold 11,500,588 shares of WCM AG. The expected, and payable, amount of the guaranteed dividend for the 2018 financial year has been factored into the annual financial statements of TLG IMMOBILIEN. The maximum liability for the guaranteed dividend for the 2019 financial year is EUR k 1,265. The company does not expect that it will be liable to pay the maximum amount as WCM AG is forecasting positive net income for the year.

OTHER

Of the credit of TLG IMMOBILIEN, EUR 0.3 m – largely resulting from a contractually agreed FF&E reserve with a hotel tenant – is restricted.

With regard to the acquisition of properties by subsidiaries, TLG IMMOBILIEN has issued a suretyship of EUR 1.5 m to each seller. It is unlikely that claims will be filed against the company.

Until the end of the following financial year, TLG IMMOBILIEN is liable towards affiliated companies whose liabilities it has undertaken to assume for the purposes of the regulations on exemption in Sec. 264 (3) HGB in the amount of the obligations entered into by the reporting date. It is unlikely that claims will be filed against the company.

8. SIGNIFICANT OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

SIGNIFICANT OFF-BALANCE-SHEET TRANSACTIONS

Besides the contracts disclosed under other financial obligations, there are no significant off-balance-sheet transactions with a considerable effect on the future cash flows of the company.

OTHER FINANCIAL OBLIGATIONS

RENTAL, LEASE AND SERVICE CONTRACTS

The company has diverse service contracts for IT services, building cleaning, reception staff and security services, as well as vehicle lease contracts for its fleet of vehicles.

These operating leases serve the company's ongoing business operations and are advantageous in that investment measures and the corresponding outflow of cash are not necessary. The operating leases are not considered risky.

Due to the active agreements that could not be terminated as at the reporting date, the amounts payable in following years are as follows:

	EUR k
2019	1,312
2020	249
2021	222
Total	**1,783**

Of the total amount, EUR k 116 is attributable to rental agreements, EUR k 1,527 is attributable to service contracts and EUR k 140 is attributable to leases.

The company has a commitment of EUR 6.2 m for contracted measures for investments in its property portfolio as well as acquisition projects where the services have not yet been rendered. The company also has other commitments that can be considered conventional for its line of business.

9. DERIVATIVE FINANCIAL INSTRUMENTS (EXCLUSIVELY TRANSACTIONS BASED ON INTEREST)

Type	Amount by 31/12/2018 EUR m	Fair value of hedging instrument EUR m	Potential loss (if applicable) EUR m	Line item (if in the statement of financial position)
Interest rate derivatives used as hedges	390.0	−5.3	−0.4	Other provisions
Interest rate derivatives not used as hedges	342.5	−3.8	−2.7	Other provisions
Total	**732.5**	**−9.1**	**−3.1**	

Interest rate derivatives safeguard the interest rate of loans that have been taken out. They were measured using the mark-to-market method.

The following valuation units were formed:

Underlying transaction/hedging instrument	Risk/type of valuation unit	Amount paid	Extend of the hedged risk
Loans to financial institutions/ interest rate derivatives	Interest rate risk/micro-hedges	EUR 390.0 m	EUR 390.0 m

The avoided provision for impending losses in connection with the hedging instruments amounted to EUR 7.3 m.

The current cash flows from the underlying and hedging transactions are expected to balance one another out almost entirely in the 2019–2026 hedging period as the risk policies of the Group require risk-weighted items (the underlying transactions) to be secured by interest rate hedges of equal value and with the same currency and term as soon as they are created.

As at the reporting date, the current cash flows from the underlying and hedge transactions almost completely balanced one another out. The net hedge presentation method was used to present them in the statement of financial position. The dollar offset method is used to determine the effectiveness of the hedge. The critical terms match method was used to evaluate the prospective effectiveness. All derivative financial instruments obtained since 2017 are no longer recognised as valuation units.

10. TRANSACTIONS WITH RELATED COMPANIES AND PARTIES

No significant transactions took place with related parties under unusual conditions.

11. ASSETS HELD IN TRUST

TLG IMMOBILIEN holds credit from rental deposits totalling EUR 4.1 m in trust (previous year EUR 3.3 m).

12. SUBSEQUENT EVENTS

The local court of Berlin-Charlottenburg has appointed Mr Jonathan Lurie as another member of the Supervisory Board of TLG IMMOBILIEN 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. No other transactions of particular significance took place after the end of the 2018 financial year.

13. AUDITOR FEES

The disclosures regarding auditor fees are made in the consolidated financial statements of TLG IMMOBILIEN which are available in the electronic Federal Gazette.

14. NUMBER OF EMPLOYEES

In the financial year, TLG IMMOBILIEN AG employed an average of 127 permanent and two temporary personnel. Additionally, it employed an average of four apprentices and one member of staff on maternity leave.

15. MANAGEMENT BOARD

The Management Board has the following members:

- Gerald Klinck (since 17 September 2018)
- Jürgen Overath (since 17 September 2018)
- Peter Finkbeiner (until 31 October 2018)
- Niclas Karoff (until 31 October 2018)

The members of the Management Board perform their roles as their main occupation.

In 2018, the total remuneration of the Management Board was EUR k 2,200. Additionally, Mr Finkbeiner and Mr Karoff were each paid EUR k 897 in connection with the premature termination of their activities.

In connection with the premature termination of their contracts, the former members of the Management Board were paid the short-term incentive for the 2018 financial year as well as their LTI entitlements. These amounts were paid out in October 2018.

The remuneration of the current 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).

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 share price compared to the relevant EPRA Europe Index. As part of the LTI scheme, a contractually fixed target amount is converted into a number of virtual shares of TLG IMMOBILIEN (performance shares) at the start of each financial year. After four years (the performance period), the virtual shares are converted into a monetary amount with consideration for the development of the share price and progress towards certain milestones and paid out. The fair value on the settlement date was EUR k 186.

In 2018, the total remuneration for former members of the management was EUR k 168 from pensions. As at 31 December 2018, the pension provisions for former members of the management totalled EUR k 2,360.

More information on the remuneration of the Management Board is available in the report on the position of the company and the Group (Remuneration Report).

16. SUPERVISORY BOARD

The Supervisory Board 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, 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

The total remuneration of the Supervisory Board in the 2018 financial year was EUR k 543. Additionally, the members are paid a net attendance fee of EUR 1,500 per day every time they attend a meeting. More information on the remuneration of the Supervisory Board is available in the report on the position of the company and the Group (Remuneration Report).

17. PROPOSED APPROPRIATION OF PROFITS

In accordance with the German Stock Corporation Act (AktG), the general meeting resolves on the appropriation of the net retained profit presented in the annual financial statements. It is likely that the payment of a dividend of EUR 0.91 per no-par value share, based on 94.1 m shares as at 31 December 2018, from the net retained profit will be proposed to the general meeting. The dividend is based on the number of qualifying no-par value shares on the date of the resolution on the appropriation of the net retained profit by the company. After the general meeting, the resolution on the appropriation of the net retained profit will be published in the Federal Gazette.

18. SHAREHOLDING

As at 31 December 2018, TLG IMMOBILIEN AG held direct and indirect interests in the following companies. Unless indicated otherwise, the figures were valid as at 31 December 2018.

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

[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-and-loss transfer agreement with TLG IMMOBILIEN AG
[4] Profit-and-loss transfer agreement with WCM Beteiligungsgesellschaft mbH & Co. KG [5] Different financial year (30/06). The figures apply to 30 June 2018.

As a rule, the financial statements have not yet been ratified. The equity and net income are based on German GAAP.

19. INVESTMENTS SUBJECT TO DISCLOSURE ACCORDING TO SEC. 160 AKTG

According to Sec. 160 (1) no. 8 AktG, disclosures must be made regarding the existence of investments that have been reported to TLG IMMOBILIEN AG by the end of 2018 according to Sec. 21 (1) or (1a) of the German Securities Trading Act (WpHG) or according to Sec. 33 (1) or (2) WpHG. The following table lists the investments reported to the company. Each disclosure was taken from the latest notification sent to TLG IMMOBILIEN AG by an entity obliged to provide it.

All publications by TLG IMMOBILIEN AG in connection with notifications of investments in the reporting year and beyond are available on the website of TLG IMMOBILIEN AG under Investor Relations > Financial news. 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.

Entity obliged to report	Voting rights in the sense of Sec. 33 and 34 WpHG	Proportion of voting rights in %	Reason for notification and affected threshold values	Proportion of instruments in the sense of Sec. 38 (1) WpHG in %	Date threshold reached	Addition of voting rights in the sense of Sec. 34 WpHG	Companies that have allocated 3% or more
Allianz Global Investors GmbH	2,107,141	2.84	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		19/07/2017	Yes	
Artemis Investment Management LLP	2,018,896	2.99	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		24/11/2016	Yes	
BlackRock, Inc.	3,415,746	3.33	Acquisition/disposal of shares with voting rights Crossing 3%	1.00	02/05/2018	Yes	
Cohen & Steers, Inc.	1,792,870	2.42	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		11/05/2017	Yes	
Ms Maria Saveriadou	24,143,000	23.36	Acquisition/disposal of instruments	6.00	06/12/2018	Yes	Ouram Holding S.à r.l.
Government of Singapore, acting by and through the Ministry of Finance	8,748,138	9.25	Share capital increase Voting rights (shortfall 10%)		06/10/2017	Yes	GIC Private Limited
Mr Amir Dayan	24,143,000	23.36	Acquisition/disposal of instruments	6.00	06/12/2018	Yes	Ouram Holding S.à r.l.
Prof Dr Gerhard Schmidt	16,550,176	16.01	Other reason: Expiry of financial instruments	3.56	21/12/2018	Yes	DIC Real Estate Investments GmbH & Co. Kommanditgesellschaft auf Aktien
Julius Baer Group Ltd.	2,147,352	2.08	Acquisition/disposal of instruments	2.87	29/11/2018	Yes	
Kairos International SICAV	3,017,599	2.92	Acquisition/disposal of instruments	2.07	10/08/2018	No	
Morgan Stanley	108,363	0.16	Acquisition/disposal of shares with voting rights Voting rights and instruments (shortfall 5%)	0.03	18/03/2016	Yes	
Principal Financial Group Inc.	2,282,192	3.38	Acquisition/disposal of shares with voting rights Voting rights (crossing 3%)	0	03/02/2016	Yes	
RAG-Stiftung	3,150,000	4.25	Acquisition/disposal of shares with voting rights Voting rights (crossing 3%)		30/06/2017	No	
The Goldman Sachs Group, Inc.	13,538	0.02	Acquisition/disposal of instruments Voting rights and instruments (shortfall 5%)	0.68	10/03/2017	Yes	
UBS Group AG	227,074	0.24	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)	0.45	09/10/2017	Yes	
Welwel Investments Ltd.	1,750,000	2.36	Change to Group structure Voting rights (shortfall 3%)		15/05/2017	No	

20. CORPORATE GOVERNANCE

The declaration required by Sec. 161 AktG has been submitted by the Management Board and Supervisory Board and is available in the Investor Relations section of the website of the company, *www.tlg.eu*.

21. GROUP AFFILIATION

TLG IMMOBILIEN AG is the parent company of the Group and prepares its own consolidated financial statements which are available in the electronic Federal Gazette.

Berlin, 6 March 2019

Gerald Klinck
Chief Financial Officer (CFO)

Jürgen Overath
Chief Operating Officer (COO)

STATEMENT OF CHANGES IN FIXED ASSETS

01/01/2018–31/12/2018

	Historical costs				
	01/01/2018	Additions	Disposals	Reclassifications	31/12/2018
	EUR	EUR	EUR	EUR	EUR
A. Assets					
I. Intangible assets					
1. Purchased software	3,580,984.52	2,006,869.59	7,774.01	839,011.11	6,419,091.21
2. Prepayments made	839,011.11	0.00	0.00	-839,011.11	0.00
	4,419,995.63	**2,006,869.59**	**7,774.01**	**0.00**	**6,419,091.21**
II. Property, plant and equipment					
1. Land, landrights and buildings, includingbuildings on third-party land	1,903,603,041.26	70,361,524.87	26,525,482.01	19,425,123.53	1,966,864,207.65
2. Technical equipment and machinery	745,604.85	0.00	0.00	0.00	745,604.85
3. Other equipment, operating and office equipment	2,166,337.55	245,497.31	315,945.32	0.00	2,095,889.54
4. Prepayments and assets under construction	26,611,854.81	8,224,846.08	25.00	-19,425,123.53	15,411,552.36
	1,933,126,838.47	**78,831,868.26**	**26,841,452.33**	**0.00**	**1,985,117,254.40**
III. Financial assets					
1. Shares in affiliated companies	710,417,792.04	98,310,805.59	0.00	0.00	808,728,597.63
2. Loans to affiliated companies	240,640,288.01	6,368,675.91	8,003,113.00	0.00	239,005,850.92
3. Other loans	2,518,953.66	0.00	0.00	0.00	2,518,953.66
	953,577,033.71	**104,679,481.50**	**8,003,113.00**	**0.00**	**1,050,253,402.21**
	2,891,123,867.81	**185,518,219.35**	**34,852,339.34**	**0.00**	**3,041,789,747.82**

Cumulative depreciation					Carrying amounts	
01/01/2018	Additions	Disposals	Reversals of write-downs	31/12/2018	31/12/2018	31/12/2017
EUR	EUR	EUR	EUR	EUR	EUR	EUR
3,383,965.17	552,960.78	863.78	0.00	3,936,062.17	2,483,029.04	197,019.35
0.00	0.00	0.00	0.00	0.00	0.00	839,011.11
3,383,965.17	**552,960.78**	**863.78**	**0.00**	**3,936,062.17**	**2,483,029.04**	**1,036,030.46**
436,665,545.13	52,887,177.39	11,131,722.89	10,672,525.05	467,748,474.58	1,499,115,733.07	1,466,937,496.13
63,306.85	77,839.85	0.00	0.00	141,146.70	604,458.15	682,298.00
1,814,918.55	141,866.59	144,911.98	0.00	1,811,873.16	284,016.38	351,419.00
0.00	0.00	0.00	0.00	0.00	15,411,552.36	26,611,854.81
438,543,770.53	**53,106,883.83**	**11,276,634.87**	**10,672,525.05**	**469,701,494.44**	**1,515,415,759.96**	**1,494,583,067.94**
0.00	59,658,944.46	0.00	0.00	59,658,944.46	749,069,653.17	710,417,792.04
0.00	0.00	0.00	0.00	0.00	239,005,850.92	240,640,288.01
0.00	0.00	0.00	0.00	0.00	2,518,953.66	2,518,953.66
0.00	**59,658,944.46**	**0.00**	**0.00**	**59,658,944.46**	**990,594,457.75**	**953,577,033.71**
441,927,735.70	**113,318,789.07**	**11,277,498.65**	**10,672,525.05**	**533,296,501.07**	**2,508,493,246.75**	**2,449,196,132.11**

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:

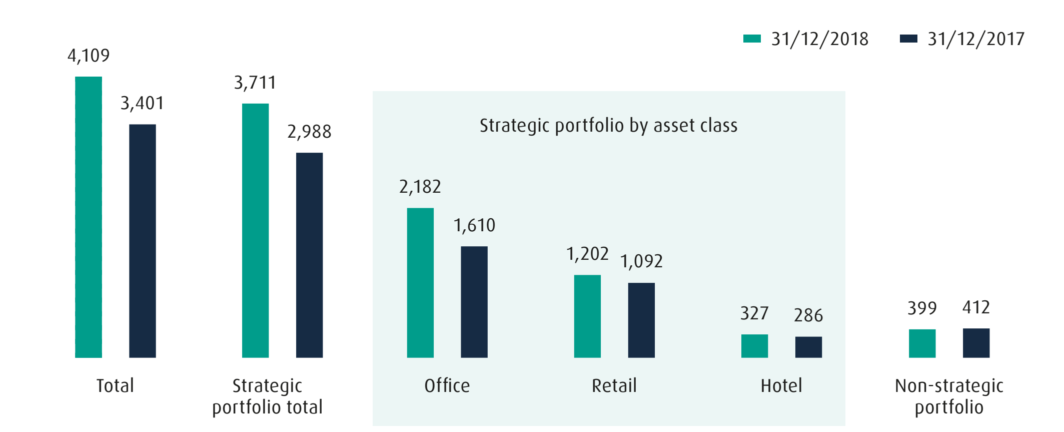
	Strategic portfolio					
Key figures	**Office**	**Retail**	**Hotel**	**Total**	**Non-strategic portfolio**	**Total**
Property value (EUR k)[1]	2,181,743	1,202,225	326,740	3,710,708	398,741	**4,109,449**
Annualised in-place rent (EUR k)[2]	100,021	79,891	16,515	196,427	30,727	**227,154**
In-place rental 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:

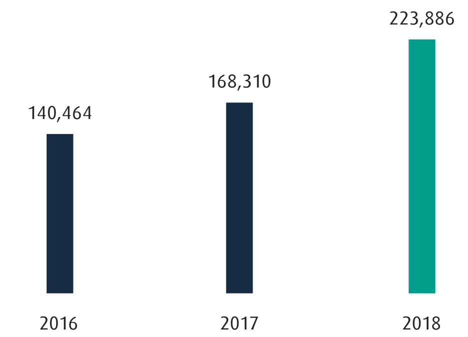
in EUR k	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	Change	Change in %
Net operating income from letting activities[1]	**196,726**	**154,904**	**41,822**	**27.0**
Result from the remeasurement of investment property[1]	552,884	210,782	342,102	162.3
Result from the disposal of properties[1]	7,833	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.

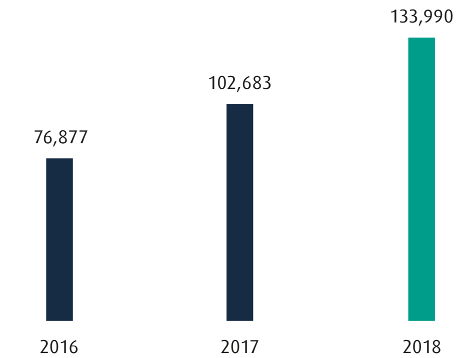
FFO was EUR k 134.0 in 2018 and was therefore 30.5% or EUR k 31,307 higher than in the previous year. At EUR 1.30, FFO per share was at the same level as in the previous year in spite of the increase in the number of shares resulting from the issuance of new shares in TLG IMMOBILIEN AG in the reporting 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.

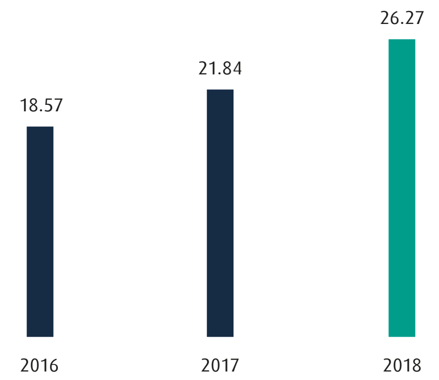
The EPRA NAV was EUR k 2,715,723 in the 2018 financial year, which equates to an EPRA NAV per share of EUR 26.27. The EPRA NAV has increased by EUR k 487,211 compared to 31 December 2017.

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
Chief Financial Officer (CFO)

Jürgen Overath
Chief Operating Officer (COO)

INDEPENDENT AUDITOR'S REPORT

TO TLG IMMOBILIEN AG

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

OPINIONS

We have audited the annual financial statements of TLG IMMOBILIEN AG, Berlin, which comprise the statement of profit or loss for the fiscal year from 1 January to 31 December 2018 and the statement of financial position as at 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. 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" on 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 annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the fiscal year from 1 January to 31 December 2018 in compliance with German legally required accounting principles, and

- the accompanying report on the position of the Company and the Group as a whole provides an appropriate view of the Company's position. In all material respects, this report on the position of the Company and the Group is consistent with the annual 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 ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual 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 annual 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 annual 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 Company 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 annual financial statements and on the report on the position of the Company and the Group.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual 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 annual 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:

SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY

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

The subsequent measurement of investment property is of material significance to the Company's assets, liabilities and financial performance. Specifically, the procedure for determining the net realizable value as of the reporting date as a basis for measuring impairment losses or reversals of impairment losses on investment properties in accordance with the "IDW Accounting Principle: Valuation of Investment Property in the Statutory Balance Sheet (IDW AcP IFA 2)" is complex as it involves 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 subsequent measurement of investment property to be a key audit matter.

Auditor's response

We obtained an understanding of the procedure used to determine the net realizable value as of the reporting date as the basis for calculating impairment losses or reversals of impairment losses on investment property and assessed whether this procedure conformed to IDW AcP IFA 2. We analyzed the assumptions relating to the intention to use the properties in the long term by reference to the Company's short-term sales planning and medium-term corporate planning.

When an entity intends to use a property in the long term, according to IDW AcP IFA 2 it must test the land and buildings separately for impairment. For a sample of developed plots of land, we therefore compared the carrying amounts of the land and the related building with the net realizable value (market value) determined by the external experts for the land and the building.

In light of the real estate-specific assumptions to be made for the measurement, 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 use 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 significant value drivers (e.g., annual basic rent, useable space, vacancy rate, discount and capitalization rate, gross multiplier) is consistent with the development of the market value of the respective property.

Permanent impairment exists when the net realizable value is lower than the carrying amount and the impairment is not expected to be merely temporary. For impaired developed plots of land we assessed the estimate of the permanent nature of any impairment and its measurement as of the reporting date.

The net realizable value of held for sale property is determined in accordance with IDW AcP IFA 2 for the developed land as a single unit. The net realizable value is usually derived from the price of the sales market on the reporting date. When the recoverable amount is lower than amortized cost, an impairment loss is recognized. In such cases, impairment losses must be recognized even when an impairment is expected to be merely temporary. We obtained an understanding of whether any impairment requirement identified for the developed land was accurately determined.

Under Sec. 253 (5) Sentence 1 HGB, impairment losses must be reversed when the reasons for a lower carrying amount cease to exist. Irrespective of the purpose of the property, we obtained an understanding of how the maximum write-up amount (amortized cost) is determined.

Our audit procedures did not lead to any reservations relating to the subsequent measurement of investment property.

Reference to related disclosures

Please refer to the information provided by the Management Board in the notes to the financial statements on the measurement of investment property and impairment losses and reversals of impairment losses in the sections "Accounting and measurement methods," "Income" and "Expenses."

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. 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 annual 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 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 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 annual financial statements and the report on the position of the Company and the Group

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’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, provided no actual or legal circumstances conflict therewith.

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 Company’s position and is, in all material respects, consistent with the annual 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 applicable 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 Company's financial reporting process for the preparation of the annual financial statements and of the report on the position of the Company and the Group.

Auditor's responsibilities for the audit of the annual 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 annual 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 Company's position and, in all material respects, is consistent with the annual 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 annual 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 annual 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 annual 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 annual 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 of the Company.

- 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 Company'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 annual 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 Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the report on the position of the Company and the Group with the annual financial statements, its conformity with [German] law, and the view of the Company'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 annual 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 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).

In addition to the financial statement audit, we have provided the following services to the audited entity that are not disclosed in the annual financial statements or in the report on the position of the Company and the Group:

- Other audit-related services in connection with the preparation of comfort letters for securities prospectuses for the conclusion of a domination agreement.
- Audit services as part of an ad-hoc enforcement procedure.

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
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

CONTACT

PUBLISHER:
TLG IMMOBILIEN AG

Hausvogteiplatz 12
10117 Berlin, Germany

Investor Relations
Sven Annutsch

Phone: + 49 30 2470 6089
Fax: + 49 30 2470 7446
Email: ir@tlg.de
Internet: www.tlg.eu

TLG IMMOBILIEN AG
Hausvogteiplatz 12, 10117 Berlin, Germany
www.tlg.eu