ANNUAL FINANCIAL STATEMENTS

2019

TLG IMMOBILIEN

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS

for the period from 1 January to 31 December 2019

	2019 EUR	2018 EUR k
1. Revenue	252,287,406.95	210,653
2. Increase in work in progress	7,122,322.73	45
3. Other capitalised internally produced services	460,908.00	0
4. Other operating income	19,787,673.52	17,027
	279,658,311.20	**227,725**
5. Cost of materials		
a) Disposals of real estate inventory at book value	36,679,452.44	15,658
b) Cost of purchased services	66,720,268.47	64,398
	103,399,720.91	**80,056**
6. Personnel expenses		
a) Salaries	17,345,226.10	15,543
b) Social security contributions and expenses for pensions and other employee benefits of which for pensions EUR 135,102.11 (previous year EUR k 147)	1,971,973.82	1,841
	19,317,199.92	**17,383**
7. Depreciation, amortization and write-downs on fixed intangible assets and property, plant and equipment	58,323,488.53	53,660
8. Other operating expenses	31,827,163.67	16,683
	66,790,738.17	**59,944**
9. Income from investments of which from affiliated companies EUR 7,468,407.65 ((previous year EUR k 2,107)	7,468,407.65	2,107
10. Income from transfer of profits	9,881,205.94	6,333
11. Other interest and similar income of which from affiliated companies EUR 5,358,311.55 (previous year EUR k 4,866)	5,560,456.31	5,260
12. Write-downs on financial assets	0.00	59,659
13. Interest and similar expenses of which to affiliated companies EUR 6,510,849.60 (previous year EUR k 1)	47,831,011.08	25,369
14. Expenses from assumption of losses	1,198,357.77	291
15. Income taxes of which income (–)/expenses relating to the changes in deferred taxes EUR 6,121,742.12 (previous year EUR k 5,558)	12,875,774.81	8,004
16. Earnings after taxes	**27,795,664.41**	**–19,680**
17. Net income for the year (Net loss for the year)	27,795,664.41	–19,680
18. Retained profits brought forward	1,501,436.19	673
19. Withdrawal from the capital reserve	79,702,899.40	77,306
20. Withdrawal from other retained earnings	0.00	37,343
21. Net retained profit	**109,000,000.00**	**95,641**

STATEMENT OF FINANCIAL POSITION

as at 31/12/2019

ASSETS

	31/12/2019 EUR	31/12/2018 EUR k
A. FIXED ASSETS		
I. Intangible assets		
1. Purchased software	2,743,014.54	2,483
2. Prepayments made	156,708.19	0.00
	2,899,722.73	**2,483**
II. Property, plant and equipment		
1. Land, landrights and buildings including buildings on third-party land	1,418,246,113.16	1,499,116
2. Technical equipment	529,300.80	604
3. Other equipment, operating and office equipment	210,993.87	284
4. Prepayments and assets under construction	35,528,786.13	15,412
	1,454,515,193.96	**1,515,416**
III. Financial assets		
1. Shares in affilitaed companies	847,829,317.97	749,070
2. Loans to affiliated companies	297,045,803.36	239,006
3. Investments	1,530,208,479.03	0
4. Other loans	2,456,926.51	2,519
	2,677,540,526.87	**990,594**
B. CURRENT ASSETS		
I. Inventories		
1. Real estate	138,844.20	142
2. Work in progress	34,830,711.04	27,708
	34,969,555.24	**27,850**
II. Receivables and other assets		
1. Trade receivables	3,577,861.25	4,846
2. Receivables from affiliated companies	20,089,697.68	9,470
3. Other assets	1,694,375.52	1,121
	25,361,934.45	**15,437**
III. Cash in hand and bank balances	**446,655,484.55**	**121,133**
C. PREPAID EXPENSES	**30,081,060.54**	**6,073**
	4,672,023,478.34	**2,678,987**

EQUITY AND LIABILITIES

	31/12/2019 EUR	31/12/2018 EUR k
A. EQUITY		
I. Subscribed capital	112,073,461.00	103,385
Contingent capital: EUR 23,861.124 (previous year EUR k 24,050)		
II. Capital reserves	1,202,645,956.23	1,064,000
III. Net retained profit	109,000,000.00	95,641
	1,423,719,417.23	**1,263,026**
B. SPECIAL ITEM FOR INVESTMENT SUBSIDIES AND GRANTS	**9,170,041.16**	**10,697**
C. PROVISIONS		
1. Provisions for pensions and similar obligations	6,958,632.00	6,577
2. Tax provisions	3,370,714.76	946
3. Other provisions	42,625,634.95	20,358
	52,954,981.71	**27,881**
D. LIABILITIES		
1. Bonds	1,606,486,338.80	400,512
2. Liabilities due to financial institutions	868,046,938.54	899,529
3. Prepayments received	33,266,064.39	27,845
4. Trade payables	4,244,386.54	6,320
5. Liabilities to affiliated companies	657,937,824.82	30,104
6. Other liabilities of which from taxes EUR 466,591.25 (previous year EUR k 2,497)	3,233,955.57	6,935
	3,173,215,508.66	**1,371,245**
E. DEFERRED INCOME	**1,283,754.51**	**580**
F. DEFERRED TAX LIABILITIES	**11,679,775.07**	**5,558**
	4,672,023,478.34	**2,678,987**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF TLG IMMOBILIEN AG

1. GENERAL

The financial statements for the 2019 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 2019 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 2019 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 unchanged 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 until 31 December 2017) have been depreciated or amortised in full or recognised as expenses in the year in which they were acquired (for acquisitions 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 the lower of historical cost or fair value 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 are all recognised at their nominal value. Identifiable risks are taken into consideration by means of individual allowances.

The discounts from the bonds issued in 2019 and from the loan from TLG Finance S.à.r.l. have been capitalised as prepaid expenses (Sec. 250 (3) HGB). They are reversed on a linear basis in line with the terms of the bonds and loan agreement.

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 2.71% (previous year 3.21%). 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 k 640 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, prepaid expenses and deferred income 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 847,829 (previous year EUR k 749,070). The disclosures regarding the shares in affiliated companies can be found in the shareholding list which is a component of the notes.

In the previous year, the shares in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (WCM AG) were written down to the lower fair value by EUR k 59,659 to EUR k 375,300 in accordance with Sec. 253 (3) sentence 5 HGB. In the financial year 2019, more shareholders of WCM AG accepted the swap offer. The carrying amount increased to TEUR 381,183 due to the addition of further shares.

Of the loans to affiliates totalling EUR k 297,046 (previous year EUR k 239,006), EUR k 255,328 (previous year EUR k 197,132) is attributable to loans to WCM AG. The increase is due to the provision of another loan of EUR k 58,845 in order to refinance loans of three subsidiaries of WCM AG. They also contain loans of EUR k 14,540 (previous year EUR k 14,594) and EUR k 27,178 (previous year EUR k 27,280) to TLG EH1 GmbH and TLG EH2 GmbH for the purposes of refinancing financial liabilities.

In September 2019, TLG IMMOBILIEN acquired a 15.03% interest in Aroundtown SA, Luxembourg. The carrying amount of the equity investment was EUR k 1,530,208 as at 31 December 2019.

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 20,090 (previous year EUR k 9,470) is essentially attributable to the transfer of profits under profit and loss transfer agreements for the 2019 financial year (EUR k 9,881) and the previous year (EUR k 4,727), income from investments (EUR k 2,441) and group allocations and recharging to the subsidiaries (EUR k 3,041).

Of the other assets, EUR k 58 is due in more than one year (previous year EUR k 109).

The prepaid expenses contain discounts of EUR k 25,100.

4. EQUITY AND LIABILITIES

SHARE CAPITAL

TLG IMMOBILIEN has share capital of EUR k 112,073. The share capital is divided into 112,073,461 no-par value shares with a theoretical par value of EUR 1.00 per share.

On the basis of the authorisation granted by resolution of the extraordinary general meeting on 22 November 2017, the share capital was increased by EUR 8,500,000.00 to EUR 111,884,729.00 on 27 June 2019 (Authorised Capital 2017/II).

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 AG, 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 2019 financial year. A total of 1,085,209 WCM shares have been transferred to TLG IMMOBILIEN. TLG IMMOBILIEN increased the share capital by EUR k 189, divided into 188,732 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.

Having been utilised partially by the share capital increase of EUR 8,500,000.00 on 27 June 2019, the Authorised Capital 2017/II still amounts to EUR 11,905,764.00.

By resolution of the general meeting on 21 May 2019 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 10,000,000.00 in exchange for cash contributions by issuing up to 10,000,000 new shares by 20 May 2024 (Authorised Capital 2019).

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 was increased by up to EUR 5,000,000.00 through 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 189 (previous year EUR k 1,355), divided into 188,732 shares (previous year 1,355,908 shares), from the Contingent Capital (Contingent Capital 2017/III). The Contingent Capital 2017/III amounts to EUR k 3,455.

CAPITAL RESERVES

Due to the increases in share capital, the capital reserves have increased by EUR k 218,349 from EUR k 1,064,000 to EUR k 1,282,349. While preparing the annual financial statements, the Management Board withdrew EUR k 79,703 from the unallocated capital reserves. The capital reserves totalled EUR k 1,202,646 as at 31 December 2019.

NET RETAINED PROFIT

By resolution of the general meeting on 21 May 2019, a dividend of EUR k 94,140 was paid to the shareholders from the net retained profit for 2018 and EUR k 1,501 was transferred to profit carryforward. The net retained profit therefore comprises a profit carryforward of EUR k 1,501.

PROVISIONS

The other provisions totalling EUR k 42,626 mainly concern personnel expenses (EUR k 2,472), long-term bonus schemes (EUR k 3,315), expenses related to letting activities (EUR k 3,687), construction costs (EUR k 5,690), outstanding invoices (EUR k 16,462) and potential losses for interest rate hedges (EUR k 11,000).

LIABILITIES

The liabilities have the following terms:

	31/12/2019				31/12/2018	
Liabilities	**Total** EUR m	**Remaining term Up to 1 year** EUR m	**Remaining term 1–5 years** EUR m	**Remaining term More than 5 years** EUR m	**Total** EUR m	**Remaining term Up to 1 year** EUR m
from the issuance of bonds	1,606.5	6.5	1,000.0	600.0	400.5	0.5
due to financial institutions	868.0	71.3	281.1	515.6	899.5	65.0
from prepayments received	33.3	33.3	0.0	0.0	27.8	27.8
from goods and services	4.2	3.9	0.3	0.0	6.3	5.9
to affiliated companies	657.9	57.9	0.0	600.0	30.1	30.1
other liabilities	3.2	2.6	0.2	0.4	6.9	6.6
Total	**3,173.1**	**175.5**	**1,281.6**	**1,716.0**	**1,371.1**	**135.9**

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 k 657,938) mainly consist of a loan from TLG Finance S.à.r.l., Luxembourg of EUR k 600,000, the claims of subsidiaries resulting from the cash management measures implemented by TLG IMMOBILIEN, although EUR k 1,198 is attributable to the assumption of losses under profit and loss transfer agreements.

Of the other liabilities totalling EUR k 3,234 EUR k 329 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, EUR k 1,645 is attributable to liabilities from retained amounts and overpayments, EUR k 446 is attributable to subsidies and EUR k 467 is attributable to taxes.

The deferred income of EUR k 1,284 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	31/12/2019 EUR k	31/12/2018 EUR k	Change EUR k
Property, plant and equipment (offset)	−61,177	−54,454	−6,723
Inventories (properties intended for disposal)	0	4	−4
Receivables and assets	326	341	−15
Special tax item (Sec. 6b EStG)	−13,170	−19,831	6,662
Pension provisions	796	707	89
Other provisions	4,544	1,576	2,969
Deferred taxes for temporary differences	**−68,680**	**−71,658**	**2,978**
Deferred tax assets on (tax) interest carryforward	2,287	3,339	−1,052
Deferred tax assets for unused losses	54,714	62,761	−8,048
Deferred tax liabilities after offsetting	**−11,680**	**−5,558**	**−6,122**

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 k 252,287 (previous year EUR k 210,653) comprises EUR k 177,422 (previous year EUR k 180,947) from letting activities, EUR k 67,981 (previous year EUR k 25,025) from the sale of land and EUR k 6,884 (previous year EUR k 4,681) from other goods and services.

The other own capitalised services (EUR k 461) concern internal services in connection with project management for the properties under development.

Of the other operating income totalling EUR k 19,788, EUR k 4,496 is attributable to the reversal of provisions. It also contains EUR k 177 in income from other periods. It contains income of EUR k 1,615 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 k 7,524.

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 k 6,927 due to a permanent impairment.

The other operating expenses of EUR k 31,827 contain impairments of receivables and other assets (EUR k 1,064).

Of the interest and similar expenses of EUR k 47,831, EUR k 23,529 is attributable to interest for loans and bonds, EUR k 4,002 is attributable to expenses for the premature repayment of loans, EUR k 3,062 is attributable to transaction costs in connection with the issuance of two bonds in 2019 and EUR k 6,822 is attributable to redemption and compensation payments for interest rate hedges. The discounting of the pension provisions contains interest of EUR k 596 (previous year EUR k 568).

The income taxes comprise current income tax (EUR k 5,113), deferred income tax (EUR k 6,122) and prior-period tax expenses (EUR k 1,641).

7. CONTINGENT LIABILITIES

FAIR COMPENSATION FOR THE 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 control 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 relevant rate (the “Net Compensation Amount”). Based on the circumstances at the time of the entering into force of the domination 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 2019, outside shareholders held 10,219,151 shares of WCM AG. The expected amount of the guaranteed dividend payable for the 2019 financial year has been taken into account in the annual financial statements of TLG IMMOBILIEN. The maximum amount of liability for the guaranteed dividend for the 2019 financial year is EUR k 1,218. The company is not likely to be liable to pay the maximum amount as WCM AG generated positive net income for the year.

OTHER

Of the credit of TLG IMMOBILIEN, EUR k 16,368 is restricted. This is primarily the result of a pledge in connection with a loan and a contractually agreed FF&E reserve with a hotel tenant.

In connection with the EUR 600 m hybrid bond issued by TLG Finance S.à r.l., Luxembourg, in the 2019 financial year, TLG IMMOBILIEN has issued a covenant to the bondholders. TLG IMMOBILIEN guarantees the due payment of all amounts payable by the issuer under the terms of the hybrid bond.

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 and outstanding measures 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 intensive 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
2020	1,019
2021	766
2022	742
Total	**2,527**

Of the total amount, EUR k 1,001 is attributable to rental agreements, EUR k 1,150 is attributable to service contracts and EUR k 375 is attributable to leases.

The company has a commitment of EUR k 32,367 for contracted investment measures in its property portfolio as well as acquisitions where the services have not yet been rendered by the other party. 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 31/12/2019 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	422.8	−15.1	0	Other provisions
Interest rate derivatives not used as hedges	189.5	−11.0	−11.0	Other provisions
Total	**612.3**	**−26.1**	**−11.0**	

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	Extent of the hedged risk
Loans to financial institutions/interest rate derivatives	Interest rate risk/micro-hedges	EUR 422.8 m	EUR 422.8 m

The avoided provision for impending losses in connection with the hedging instruments amounted to EUR k 15,070.

The current cash flows from the underlying and hedging transactions are expected to balance one another out almost entirely in the 2020–2026 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 designated as hedging instruments in valuation units. Consequently, if the market value of these interest rate hedges should turn negative, a full provision for potential losses shall be recognised as a liability.

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 k 4,327 in trust (previous year EUR k 4,125).

12. SUBSEQUENT EVENTS

MERGER WITH AROUNDTOWN SA

In September 2019, in connection with the staggered acquisition of a parcel of 15% of the shares of Aroundtown SA, Luxembourg, TLG IMMOBILIEN AG announced that both companies were striving for negotiations regarding a merger. Consequently, both parties signed a business combination agreement on 18 November 2019. On the same day, Aroundtown SA announced its intention to submit a public takeover offer to the shareholders of TLG in the form of a share swap.

The offer was published on 18 December 2019; the first deadline for the share swap by the shareholders of TLG IMMOBILIEN AG ended on 21 January 2020 with an acceptance rate of 59.37%. The subsequent further acceptance deadline ended on 7 February 2020.

The total number of shares for which the takeover offer was accepted by the end of the second deadline totalled 86,857,831 shares. As at the reporting date, this was equivalent to approximately 77.48% of the share capital and voting rights.

On 19 February 2020, the shares offered by Aroundtown SA as part of the takeover offer were transferred to the shareholders of TLG IMMOBILIEN who had submitted their shares as part of the share swap.

Due to the completion of the share swap and the resulting reduction in the proportion of the free float, the shares were removed from the SDAX upon the closure of the market on 18 February 2020.

On 19 February 2020, Aroundtown SA gained control over TLG IMMOBILIEN AG and its subsidiaries.

As part of the merger, Aroundtown SA increased its share capital on 19 February 2020 by means of a capital increase in exchange for contributions in kind, excluding the subscription rights of shareholders, in which 312,688,188 shares were issued. Consequently, TLG IMMOBILIEN AG's stake in the share capital and in the voting rights of Aroundtown SA has decreased to around 12%.

CHANGE OF CONTROL

The change of control activates the change-of-control clauses in credit agreements and bond conditions which, in the event of a change of majority, grant the lending banks and bondholders extraordinary rights of termination under certain circumstances. As at 31 December 2019, this concerned a total financial volume of around EUR 1.4 bn, of which around EUR 400 m was attributable to bonds and around EUR 990 m was attributable to bank loans. A number of the banks had already approved the intended merger and change of control in advance and declared that they would not exercise their rights of termination. If the change of control should result in a need to refinance, Aroundtown has committed to cover it with shareholder loans and other financial measures.

As at 27 March 2020, written commitments have been obtained from banks for the entire credit volume of the Group, some of which are tied to specific conditions and duties of cooperation. TLG IMMOBILIEN AG does not expect to make use of the financing commitment of Aroundtown SA in connection with its bank loans. On the other hand, extraordinary rights of termination will exist for bonds worth EUR 400 m until 27 April 2020. In light of the recent development of the share price, it is currently likely that some of the bond holders will exercise their rights of termination. The liquidity support agreed in the business combination agreement with Aroundtown will be available to the company if this should happen. Additionally, TLG IMMOBILIEN holds a considerable amount of its own cash and can continue to obtain financing via the bond market.

PROPERTY TRANSACTIONS

The transfer of benefits and encumbrances for the property "Geo-Park Freiberg" which was disposed of in 2019 took place on 1 March 2020.

CORONA CRISIS

Infections with the so-called Corona virus, which has been spreading since the end of 2019, increasingly affect public life and economies in Germany, Europe and numerous other countries.

Stock exchanges around the world crashed in March 2020 due to the crisis. This development was followed by the market capitalisation of Aroundtown SA. As it is a real estate company, the EPRA NAV is used as a key indicator to assess the stability of the value of the equity investment in Aroundtown SA. At around EUR 8.70 by 31 December 2019, the EPRA NAV per share of Aroundtown SA surpasses the carrying amount of Aroundtown SA's shares of EUR 8.60 per share. Therefore, the Management Board does not view the volatile share price development as an indication for a sustained impairment of the shares and has therefore not recognised an impairment loss.

The rental business and liquidity of TLG IMMOBILIEN are predominantly exposed to risks from properties which are occupied by tenants operating in the leisure industry or used for gastronomy or non-food retail. As at 31 December 2019, the annualised in-place rent from tenants of TLG IMMOBILIEN AG in these sectors made up approximately 25% of the total annualised in-place rent, which means that bad debt from these properties is not expected to result in liquidity shortages over a limited period of time. As at the reporting date, approximately 44% of the annualised in-place rent was attributable to office rentals.

At the moment, it is increasingly apparent that the coronavirus pandemic will have a significant negative effect on the German economy, at least temporarily. It is currently too early to say whether or to what extent these negative developments will continue beyond 2020. Despite the coronavirus pandemic, TLG IMMOBILIEN does not expect the property market to suffer any significant negative effects in the long term. As such, the values of properties and companies which hold properties are expected to remain stable.

If the coronavirus pandemic does cause the German economy and property market to suffer a long-term downturn, this could cause the market values of properties in the portfolio of TLG IMMOBILIEN and its subsidiaries to decrease and result in a need to depreciate property, plant and equipment and shares in affiliates.

No other transactions of particular significance took place after the end of the 2019 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 139 permanent and five temporary personnel. Additionally, it employed an average of three apprentices and two members of staff on maternity leave.

15. MANAGEMENT BOARD

The Management Board has the following members:

- Gerald Klinck, CFO
- Jürgen Overath, COO
- Barak Bar-Hen, CEO (since 3 June 2019)

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

In 2019, the total remuneration of the Management Board was EUR k 3,417.

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).

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 of the 2019 LTI tranche as at the settlement date was EUR k 429 or EUR k 341.

In 2019, the total remuneration for former members of the management was EUR k 215 from pensions. As at 31 December 2019, the pension provisions for former members of the management totalled EUR k 2,475.

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:

Sascha Hettrich FRICS (Chairperson of the Supervisory Board)	Chairperson since 21/05/2019
Chairperson of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019, Member until 21/05/2019
Chairperson of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	since 21/05/2019
Member of the project development committee of TLG IMMOBILIEN AG, Berlin	Chairperson until 20/05/2019
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	
Member of the supervisory board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt/Main	
Member of the board of directors, VIVION Investments S.à r.l., Luxembourg	
Member of the board of directors, Golden Capital Partners S.A., Luxembourg	
Managing partner of HETTRICH TOMORROW GmbH, Berlin	
Member of the Committee on Berlin Property Values	
Ran Laufer (Vice-chairperson)	Vice-chairperson since 21/05/2019
Member of the project development committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Shareholder/managing director of Panorama Immobilien GmbH, Monheim am Rhein	since 2019
CEO of ADO Properties S.A., Berlin	July 2019 to December 2019
Member of the board of directors of Aroundtown S.A., Luxembourg	since 16/12/2019
Klaus Krägel	Member since 21/05/2019
Chairperson of the project development committee of TLG IMMOBILIEN, Berlin	since 21/05/2019
CEO of DIM Holding AG, Berlin	until 31/01/2020
Managing director of GIV Management GmbH, Berlin	until 30/11/2019
Managing director of Golden Route GmbH, Hamburg	
Jonathan Lurie	Member since 15/02/2019
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 21/05/2019
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	since 21/05/2019
Senior adviser, real estate, McKinsey & Company, London	
Managing partner, Realty Corporation Ltd., London	
Member of the supervisory board of Corestate Capital Holdings SA, Luxembourg	since April 2019
Helmut Ullrich	
Chairperson of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	
Member of the project development committee of TLG IMMOBILIEN, Berlin	until 21/05/2019
Chairperson of the supervisory board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt/Main	
Michael Zahn	Member and Chairperson until 21/05/2019
Chairperson of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	until 21/05/2019
Chairperson of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	until 21/05/2019
CEO of Deutsche Wohnen SE, Berlin	
Member of the supervisory board of Scout24 AG, Munich	until June 2019
Chairperson of the advisory board of G+D Gesellschaft für Energiemanagement GmbH, Magdeburg	
Chairperson of the supervisory board of Funk Schadensmanagement GmbH, Berlin	
Member of the advisory board of DZ Bank AG, Frank-furt/Main	
Member of the advisory board of Füchse Berlin Handball GmbH, Berlin	
Member of the real estate advisory board of GETEC Wärme & Effizienz AG, Magdeburg	
Dr Michael Bütter	Member until 21/05/2019 Vice-chairperson until 21/05/2019
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	until 21/05/2019
Member of the capital market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the project development committee of TLG IMMOBILIEN, Berlin	until 21/05/2019
Member of the board of directors, ADO Properties S.A., Luxembourg	
Chairperson of the audit committee, ADO Properties S.A., Luxembourg	
Member of the investment and finance committee, ADO Properties S.A., Luxembourg	
Member and vice-chairperson of the supervisory board of Assmann Beraten + Planen AG, Berlin	
Stefan E. Kowski	Member until 15/05/2019
Partner at Novalpina Capital LLP, London	

The total remuneration of the Supervisory Board in the 2019 financial year was EUR k 532. 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. The payment of a dividend of EUR 0.96 per no-par value share from the net retained profit, based on 109 m shares as at 31 December 2019, is expected to 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. The proposal of the Management Board will remain subject to the further development of the coronavirus pandemic and the performance of the markets until the invitation to the annual general meeting is published.

18. SHAREHOLDING

As at 31 December 2019, TLG IMMOBILIEN held direct and indirect interests in the following companies. Unless indicated otherwise, the figures were valid as at 31 December 2019.

	Name and registered office of the company	Shareholding %	Equity as at 31/12/2019 EUR k	Income in the 2019 financial year EUR k	Shareholding Direct/indirect
1	Aroundtown SA, Luxembourg[5]	**15.03**	4,324,522	130,516	Direct
2	Hotel de Saxe an der Frauenkirche GmbH, Dresden[2,3]	**100.00**	22,200	0	Direct
3	River Berlin Immobilien GmbH & Co. KG, Berlin[1]	**94.90**	2,025	78	Indirect
4	River Bonn Immobilien GmbH & Co. KG, Berlin[1]	**94.90**	2,289	133	Indirect
5	River Düsseldorf Immobilien GmbH & Co. KG, Berlin[1]	**94.90**	1,160	−34	Indirect
6	River Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	**94.90**	13,013	−1,259	Indirect
7	TLG Reserve1 GmbH & Co. KG, Berlin[1]	**100.00**	0	−1	Direct
8	TLG BES GmbH, Berlin[2,4]	**100.00**	n/a	n/a	Direct
9	TLG Beteiligungsgesellschaft mbH, Berlin[2]	**100.00**	23	−2	Direct
10	TLG BN 1 GmbH & Co. KG, Berlin[1] (TLG BN 1 GmbH, Berlin from 01/01/2020)	**100.00**	88,651	1,501	Direct
11	TLG CCF GmbH, Berlin[2,3]	**100.00**	94,025	0	Direct
12	TLG EH1 GmbH, Berlin[2,3]	**94.90**	17,550	0	Direct
13	TLG EH2 GMBH, BERLIN[2,3]	**94.90**	28,834	234	Direct
14	TLG FAB GmbH, Berlin[2,3]	**94.90**	27,896	0	Direct
15	TLG Finance S.à r.l., Luxembourg	**100.00**	2,806	−94	Direct
16	TLG Fixtures GmbH, Berlin[2,3]	**100.00**	359	0	Direct
17	TLG HH1 GmbH & Co. KG, Berlin[1,4] (TLG HH 1 GmbH, Berlin from 01/01/2020)	**100.00**	58,521	940	Direct
18	TLG MVF GmbH, Berlin[2,3]	**100.00**	73,025	0	Direct
19	TLG Sachsen Forum GmbH, Berlin[2,3]	**100.00**	24,104	0	Direct
20	Triangel Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	**94.90**	12,983	−723	Indirect
21	WCM Besitzgesellschaft mbH & Co. KG, Berlin[1] (WCM Besitzgesellschaft GmbH, Berlin from 01/01/2020)	**100.00**	25	56	Indirect
22	WCM Beteiligungs- und Grundbesitz Aktiengesellschaft, Frankfurt/Main	**92.53**	252,121	7,990	Direct
23	WCM Beteiligungsgesellschaft mbH & Co. KG, Berlin[1]	**100.00**	−8,441	−6,002	Indirect
24	WCM Fixtures GmbH, Berlin[2]	**100.00**	53	−35	Indirect
25	WCM Handelsmärkte I GmbH, Berlin[2]	**94.90**	683	100	Indirect
26	WCM Handelsmärkte II GmbH, Berlin[2]	**94.90**	1,178	321	Indirect
27	WCM Handelsmärkte IV GmbH & Co. KG, Berlin[1]	**94.90**	17,859	156	Indirect
28	WCM Handelsmärkte IX GmbH & Co. KG, Berlin[1]	**94.80**	6,311	10	Indirect
29	WCM Handelsmärkte VII GmbH & Co. KG, Berlin[1]	**94.90**	5,924	−18	Indirect
30	WCM Handelsmärkte X GmbH & Co. KG, Berlin[1]	**94.80**	5,395	−15	Indirect
31	WCM Handelsmärkte XI GmbH & Co. KG, Berlin[1]	**94.80**	3,494	−924	Indirect
32	WCM Handelsmärkte XII GmbH & Co. KG, Berlin[1]	**94.80**	2,014	10	Indirect
33	WCM Handelsmärkte XIII GmbH & Co. KG, Berlin[1]	**94.00**	2,203	356	Indirect
34	WCM Handelsmärkte XIV GmbH & Co. KG, Berlin[1]	**94.00**	4,989	−93	Indirect
35	WCM Handelsmärkte XV GmbH & Co. KG, Berlin[1]	**94.00**	5,544	−18	Indirect
36	WCM Handelsmärkte XVI GmbH & Co. KG, Berlin[1]	**94.00**	1,207	−59	Indirect
37	WCM Handelsmärkte XVII GmbH, Berlin[2]	**94.90**	1,174	−253	Indirect
38	WCM Office I GmbH, Berlin[2]	**94.90**	3,832	−262	Indirect
39	WCM Office II GmbH & Co. KG, Berlin[1]	**94.90**	2,303	−502	Indirect
40	WCM Office III GmbH & Co. KG, Berlin[1]	**94.90**	70	−625	Indirect
41	WCM Office IV GmbH & Co. KG, Berlin[1]	**94.90**	1,870	−236	Indirect
42	WCM Vermögensverwaltung GmbH & Co. KG, Berlin[1]	**100.00**	24,077	−9,864	Indirect
43	WCM Verwaltungs GmbH, Berlin[2]	**100.00**	72	−43	Indirect
44	WCM Verwaltungs I GmbH, Berlin[2]	**100.00**	165	40	Indirect
45	WCM Verwaltungs II GmbH, Berlin[2]	**100.00**	63	−15	Indirect
46	WCM Verwaltungs III GmbH & Co. KG, Berlin[1]	**100.00**	−2,779	−529	Indirect
47	WCM Verwaltungs IV GmbH & Co. KG, Berlin[1]	**100.00**	−787	−441	Indirect

[1] According to Sec. 264b HGB, companies are exempted from their obligation to prepare financial statements.
[2] According to Sec. 264 (3) HGB, companies are exempted from their obligation to prepare financial statements.
[3] Profit transfer agreement with TLG IMMOBILIEN AG
[4] Different financial year (30 June). The figures apply to 30 June 2019.
[5] The figures concern the published annual financial statements according to IFRS.

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 2019 according to Sec. 21 (1) or (1a) of the German Securities Trading Act (WpHG) or from January 2019 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.	5,013,522	4.47	Acquisition/disposal of shares with voting rights and acquisition/disposal of instruments Voting rights and instruments (shortfall 5%)	0.55	11/12/2019	Yes	
Cohen & Steers, Inc.	1,792,870	2.42	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		11/05/2017	Yes	
Maria Saveriadou	30,339,377	29.33	Acquisition/disposal of shares with voting rights and utilisation of financial instruments Voting rights (crossing 25%)		15/03/2019	Yes	Ouram Holdung S.à r.l.
Government of Singapore, acting by and through the Ministry of Finance	3,327,977	2.97	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		12/12/2019	Yes	
Amir Dayan	30,339,377	29.33	Acquisition/disposal of shares with voting rights and utilisation of financial instruments Voting rights (crossing 25%)		15/03/2019	Yes	Ouram Holdung S.à r.l.
Prof. Dr. Gerhard Schmidt	24,397	0.02	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		26/04/2019	Yes	
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	2,601,813	2.52	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		06/05/2019	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	
Aroundtown SA	310,855	0.28	Acquisition/disposal of instruments Voting rights and instruments (crossing 25%)	27.93	18/11/2019	Yes	
AXA Equitable Holdings, Inc.	3,589,708	3.21	Voluntary disclosure with regard to changes in the Group structure Voting rights (crossing 3%)		13/11/2019	Yes	Alliance Bernstein L.P
AXA S.A.	150,000	0.13	Change in the chain of controlled companies Voting rights (shortfall 3%)		13/11/2019	Yes	
Georgios Economou	8,261,836	7.99	Acquisition/disposal of shares with voting rights and utilisation of instruments Voting rights (crossing 5%)		26/04/2019	Yes	XENOPUS LIMITED
Bedrock Holdings S.A.	0	0	Acquisition/disposal of instruments Voting rights and instruments (crossing 5%)		25/04/2019	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, 27 March 2020

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

STATEMENT OF CHANGES IN FIXED ASSETS

01/01/2019–31/12/2019

	Historical costs				
in EUR	01/01/2019	Additions	Disposals	Reclassifications	31/12/2019
A. ASSETS					
I. Intangible assets					
1. Purchased software	6,419,091.21	1,152,294.11	0.00	0.00	7,571,385.32
2. Prepayments made	0.00	156,708.19	0.00	0.00	156,708.19
	6,419,091.21	**1,309,002.30**	**0.00**	**0.00**	**7,728,093.51**
II. Property, plant and equipment					
1. Land, landrights and buildings, including buildings on third-party land	1,966,864,207.65	1,195,231.12	72,829,220.76	4,344,609.91	1,899,574,827.92
2. Technical equipment and machinery	745,604.85	2,848.65	0.00	0.00	748,453.50
3. Other equipment, operating and office equipment	2,095,889.54	22,574.82	0.00	0.00	2,118,464.36
4. Prepayments and assets under construction	15,411,552.36	24,461,843.68	0.00	–4,344,609.91	35,528,786.13
	1,985,117,254.40	**25,682,498.27**	**72,829,220.76**	**0.00**	**1,937,970,531.91**
III. Financial assets					
1. Share in affiliated companies	808,728,597.63	98,759,664.80	0.00	0.00	907,488,262.43
2. Loans to affiliated companies	239,005,850.92	58,039,952.44	0.00	0.00	297,045,803.36
3. Investments	0.00	1,530,208,479.03	0.00	0.00	1,530,208,479.03
4. Other loans	2,518,953.66	0.00	62,027.15	0.00	2,456,926.51
	1,050,253,402.21	**1,687,008,096.27**	**62,027.15**	**0.00**	**2,737,199,471.33**
	3,041,789,747.82	**1,713,999,596.84**	**72,891,247.91**	**0.00**	**4,682,898,096.75**

Cumulative depreciation					Carrying amounts	
01/01/2019	Additions	Disposals	Reversals of write-downs	31/12/2019	31/12/2019	31/12/2018
3,936,062.17	892,308,61	0.00	0.00	4,828,370.78	2,743,014.54	2,483,029.04
0.00	0.00	0.00	0.00	0.00	156,708.19	0.00
3,936,062.17	**892,308.61**	**0.00**	**0.00**	**4,828,370.78**	**2,899,722.73**	**2,483,029.04**
467,748,474.58	57,257,576.59	36,153,019.32	7,524,317.09	481,328,714.76	1,418,246,113.16	1,499,115,733.07
141,146.70	78,006.00	0.00	0.00	219,152.70	529,300.80	604,458.15
1,811,873.16	95,597.33	0.00	0.00	1,907,470.49	210,993.87	284,016.38
0.00	0.00	0.00	0.00	0.00	35,528,786.13	15,411,552.36
469,701,494.44	**57,431,179.92**	**36,153,019.32**	**7,524,317.09**	**483,455,337.95**	**1,454,515,193.96**	**1,515,415,759.96**
59,658,944.46	0.00	0.00	0.00	59,658,944.46	847,829,317.97	749,069,653.17
0.00	0.00	0.00	0.00	0.00	297,045,803.36	239,005,850.92
0.00	0.00	0.00	0.00	0.00	1,530,208,479.03	0.00
0.00	0.00	0.00	0.00	0.00	2,456,926.51	2,518,953.66
59,658,944.46	**0.00**	**0.00**	**0.00**	**59,658,944.46**	**2,677,540,526.87**	**990,594,457.75**
533,296,501.07	**58,323,488.53**	**36,153,019.32**	**7,524,317.09**	**547,942,653.19**	**4,134,955,443.56**	**2,508,493,246.75**

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

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

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

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

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

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

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

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

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

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

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

1.2 CONTROL SYSTEMS

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

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

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

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

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND PROPERTY MARKETS

2.1.1 General economic situation

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

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

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

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

2.1.2 Development of the office property market

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

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

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

2.1.3 Development of investments and development projects

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

2.1.4 Development of the retail property market

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

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

2.1.5 Development of the hotel property market

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

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

2.2 COURSE OF BUSINESS

General statement

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

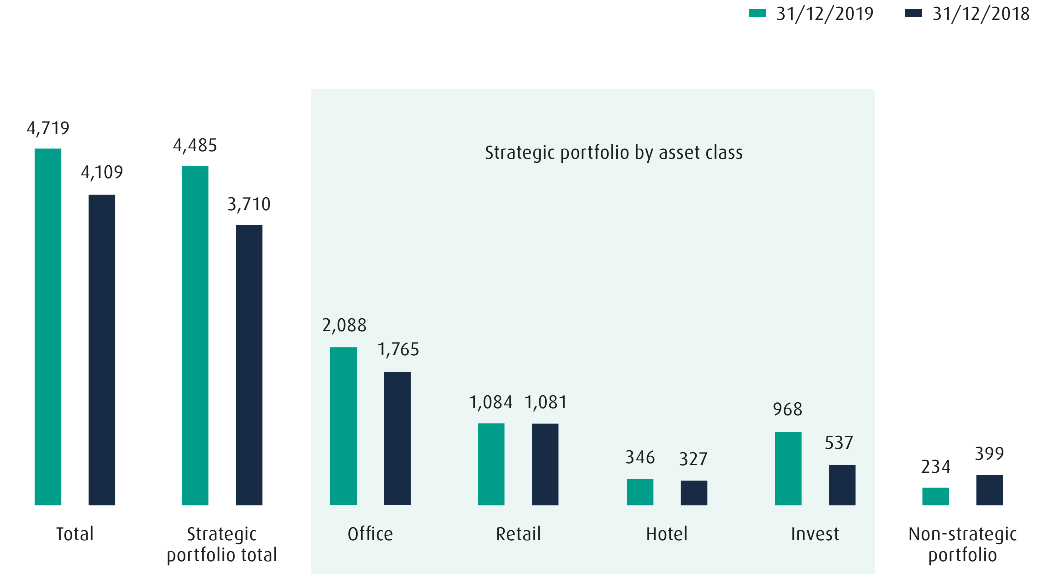
TLG IMMOBILIEN classifies the properties in its portfolio into a strategic portfolio and a non-strategic portfolio. The strategic portfolio has comprised the office, retail and hotel asset classes, as well as the invest asset class since 30 June 2019. The invest asset class contains properties whose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

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

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

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

in EUR m



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

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

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

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

2.3.1 Financial performance

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

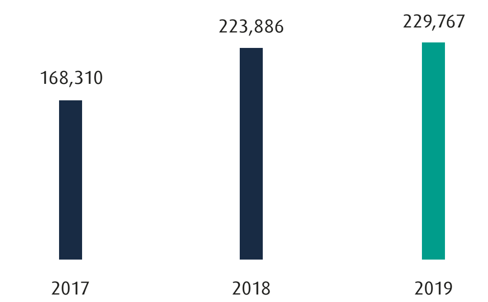
The net income was EUR k 267,373 higher than in the previous year. The EUR k 85,482 increase in the result from the remeasurement of investment property was one key driver. The net income from companies measured at equity of EUR k 49,817 also had a positive effect. The result in the previous year was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

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

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

Rental income

in EUR k



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

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

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

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

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

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

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

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

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

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

2.3.2 Cash flows

Cash flow statement

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

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

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

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

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

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

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

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

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

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

2.3.3 Net assets

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

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

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

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

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

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

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

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

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

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

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

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

2.3.4 Financial performance indicators

FFO development

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

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

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

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

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

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

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

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

Net Loan to Value (Net LTV)

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

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

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

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

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

EPRA Net Asset Value (EPRA NAV)

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

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

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

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

2.3.5 Non-financial performance indicators

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

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

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

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

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

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

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

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

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

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

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

3. REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

3.1. RISK AND OPPORTUNITY REPORT

3.1.1 Risk management system

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

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

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

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

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

Risk identification

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

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

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

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

Risk analysis and quantification

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

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

The potential losses were categorised as follows:

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

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

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

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

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

Risk communication

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

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

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

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

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

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

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

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

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

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

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

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

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

Bad debt from sales and leasing

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

Vacancy risk

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

Environment and contaminated sites

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

Operational management

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

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

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

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

Investments

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

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

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

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

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

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

Company-specific risks

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

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

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

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

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

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

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

Liquidity

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

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

Tax risk

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

Legislative risk

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

Personnel

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

Costs of litigation and deadlines

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

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

Press and image

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

Data and IT risks

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

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

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

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

Internal and external offences

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

Risks from force majeure

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

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

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

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

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

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

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

3.1.3 Internal control and risk management system for the accounting process

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

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

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

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

3.1.4 Risk management in relation to the use of financial instruments

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

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

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

3.1.5 General risk situation

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

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

3.1.6 Opportunity report

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

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

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

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

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

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

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

3.2 FORECAST REPORT

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

3.2.1 General economic conditions and property markets

Overall economy

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

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

Property market

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

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

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

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

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

3.2.2 Expected business development

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

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

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

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

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

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

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

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

4.2 PROPORTION OF WOMEN AND DIVERSITY

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

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

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

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

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

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

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

4.3 REMUNERATION REPORT

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

4.3.1 Foreword

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

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

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

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

4.3.2 Management Board remuneration system

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

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

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

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

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

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

Fixed remuneration component

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

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

Short-term incentive (STI)

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

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

The STI is the product of (i) the target STI, (ii) the FFO per share factor and (iii) the performance factor; the

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

maximum annual STI is EUR k 375 for the members of the Management Board and EUR k 450 for the Chairperson, and no STI will be paid at all in a financial year if the FFO per share is less than 75% of the target FFO per share.

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

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

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

Long-term incentive (LTI)

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

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

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

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

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

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

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

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

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

Long-term incentive

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

[1] Proportionate remuneration from 3 June 2019

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

Total remuneration for the Management Board in 2019 and 2018

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

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

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

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

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

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

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

Payments in the event of premature termination of employment

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

Death benefits

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

Supervisory Board remuneration system

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

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

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

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

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

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

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

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

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

5. DISCLOSURES RELEVANT TO ACQUISITIONS

5.1 COMPOSITION OF SUBSCRIBED CAPITAL

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

5.2 MAJOR SHAREHOLDINGS

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

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

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

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

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

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

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

5.4 AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE NEW SHARES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Berlin, 27 March 2020

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

7. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

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

7.1 SEPARATE FINANCIAL STATEMENTS – FINANCIAL PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

7.2 SEPARATE FINANCIAL STATEMENTS – CASH FLOWS

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

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

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

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

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

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

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

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

7.3 SEPARATE FINANCIAL STATEMENTS – NET ASSETS

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

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

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

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

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

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

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

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

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

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

7.4 SEPARATE FINANCIAL STATEMENTS – RISKS AND OPPORTUNITIES

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

7.5 SEPARATE FINANCIAL STATEMENTS – FORECAST REPORT

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

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

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

Berlin, 27 March 2020

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

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 income statement for the fiscal year from 1 January to 31 December 2019 and the balance sheet as at 31 December 2019, 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 2019. In accordance with German legal requirements, we have not audited the content of the responsibility statement included in the "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" section of the report on the position of the Company and the Group or the declaration on corporate governance included in the "Corporate governance" section of the report on the position of the Company and the Group.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying 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 2019 and of its financial performance for the fiscal year from 1 January to 31 December 2019 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 of the responsibility statement included in the "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" section of the report on the position of the Company and the Group or the declaration on corporate governance included in the section "Corporate governance" 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 2019. 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 expert 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 that work as audit evidence for the measurement of investment property.

As part of our procedures, we reconciled a sample of the agreed rents which were available to the expert for the valuation with the underlying rental agreements. We also compared the significant assumptions concerning market rents and the capitalization and discount rates for real estate with the information available to 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 on a test basis.

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 policies," "Income" and "Expenses."

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act] and the supervisory board's declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG. In all other respects, the executive directors are responsible for the other information.

The other information comprises the declaration on corporate governance included in the section "Corporate governance" pursuant to Sec. 289f (2) in conjunction with Sec. 315d HGB and the declaration of compliance with the Corporate Governance Code in accordance with Sec. 161 AktG in the report on the position of the Company and the Group as well as the responsibility statement included in the section entitled "Responsibility statement required by Sec. 264 (2) Sentence 3 HGB, Sec. 289 (1) Sentence 5 HGB, Sec. 315 (1) Sentence 5 HGB" of the report on the position of the Company and the Group.

Our opinions on the annual 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the supervisory board for the 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 auditor by the annual general meeting held on 21 May 2019 and were engaged by the supervisory board on 18 October 2019. We served as the auditor of TLG IMMOBILIEN GmbH from fiscal year 1999 to 2013. Since fiscal year 2014 we serve as the auditor of TLG IMMOBILIEN AG without interruption.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

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 related to the issue of notes.

- Other services in connection with a corporate transaction.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stefanie Kreninger.

Berlin 27 March 2020
Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Kreninger	Pilawa
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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