ANNUAL FINANCIAL STATEMENTS 2017

TLG IMMOBILIEN AG

TLG IMMOBILIEN

ANNUAL FINANCIAL STATEMENTS

INCOME STATEMENT

for 2017

	2017 EUR	2017 EUR	2016 EUR k
1. Revenue		249,014,421.15	186,239
2. Increase in work in progress		8,002,204.31	2,261
3. Other operating income		20,069,021.91	16,956
		277,085,647.37	205,456
4. Cost of materials			
a) Disposals of real estate inventory at book value	51,601,967.08		21,707
b) Cost of purchased services	52,782,613.46		51,404
		104,384,580.54	73,111
5. Personnel expenses			
a) Salaries	9,804,180.78		9,955
b) Social security contributions and expenses for pensions and other employee benefits of which for pensions EUR 117,672.97 (previous year EUR k 115)	1,326,251.58		1,052
		11,130,432.36	11,007
6. Depreciation, amortization and write-downs on fixed intangible assets and property, plant and equipment		58,646,399.23	52,778
7. Other operating expenses		15,458,687.75	10,124
		87,465,547.49	58,435
8. Income from investments of which from affiliated companies EUR 4,881,483.00 (previous year EUR k 3,301)		4,881,483.00	3,301
9. Income from transfer of profits		2,086,472.72	0
10. Other interest and similar income of which from affiliated companies EUR 32,477.06 (previous year EUR k 0)		282,651.52	308
11. Interest and similar expenses of which to affiliated companies EUR 2,901.96 (previous year EUR k 3)		47,466,593.65	27,145
12. Expenses from assumption of losses		5,983,947.40	0
13. Income taxes of which income (-)/ expenses relating to the changes in deferred taxes EUR -54,233,426.48 (previous year EUR k 1,090)		-55,570,032.39	4,935
14. Earnings after taxes		96,835,646.07	29,965
15. Other taxes		1,225.00	2
16. Net income for the year		96,834,421.07	29,963
17. Retained profits brought forward		1,483,511.16	2,023
18. Withdrawal from other retained earnings		0.00	28,838
19. Appropriation to other retained earnings		13,000,000.00	0
20. Net profit		85,317,932.23	60,824

BALANCE SHEET

As at 31/12/2017

ASSTES		EUR	12/31/2017 EUR	12/31/2016 EUR k
A.	**ASSETS**			
I.	**Intangible assets**			
1.	Purchased Software	197,019.35		249
2.	Prepayments made	839,011.11		0
			1,036,030.46	249
II.	**Property, plant and equipment**			
1.	Land, landrights and buildings including buildings on third-party land	1,466,937,496.13		1,449,333
2.	Technical equipment	682,298.00		140
3.	Other equipment, operating and office equipment	351,419.00		229
4.	Prepayments and assets under construction	26,611,854.81		4,436
			1,494,583,067.94	1,454,138
III.	**Financial assets**			
1.	Shares in affiliated companies	710,417,792.04		264,732
2.	Loans to affiliated companies	240,640,288.01		0
3.	Other loans	2,518,953.66		2,519
			953,577,033.71	267,251
B.	**CURRENT ASSETS**			
I.	**Inventories**			
1.	Real estate	417,806.41		712
2.	Work in progress	27,663,053.22		19,661
			28,080,859.63	20,373
II.	**Financial assets**			
1.	Trade receivables	5,230,092.79		4,956
2.	Receivables from affiliated companies	2,090,768.74		4
3.	Other receivables and assets	1,908,594.78		1,866
			9,229,456.31	6,826
III.	**Cash in hand and bank balances**		185,675,031.24	63,756
C.	**PREPAID EXPENSES**		6,596,890.48	6,523
			2,678,778,369.77	1,819,116

LIABILITIES		EUR	12/31/2017 EUR	12/31/2016 TEUR
A.	**EQUITY**			
I.	**Subscribed capital** of which Contingent Capital of EUR 25,405,764.00 (previous year EUR k 33,716)		102,028,821.00	67,432
II.	**Capital reserves**		1,110,921,350.39	486,343
III.	**Retained earnings**			
	Other retained earnings		37,342,956.83	24,343
IV.	**Net profit**		85,317,932.23	60,824
			1,335,611,060.45	638,942
B.	**SPECIAL ITEM FOR INVESTMENT SUBSIDIES AND GRANTS**		11,167,833.24	11,613
C.	**Provisions**			
1.	Provisions for pensions and similar obligations	6,068,858.00		5,919
2.	Tax provisions	1,120,849.26		3,972
3.	Other provisions	13,891,861.03		15,406
			21,081,568.29	25,297
D.	**LIABILITIES**			
1.	Bonds	400,000,000.00		0
2.	Liabilities due to financial institutions	854,151,215.86		1,044,362
3.	Prepayments received	30,777,472.99		23,542
4.	Trade payables	3,520,265.78		6,248
5.	Liabilities to affiliated companies	17,541,057.72		9,258
6.	Other liabilities of which from taxes EUR 177,417.39 (previous year EUR k 1,728) of which social security EUR 425.00 (previous year EUR k 0)	4,175,225.67		4,928
			1,310,165,238.02	1,088,338
E.	**DEFERRED INCOME**		752,669.77	693
F.	**DEFERRED TAX LIABILITIES**		0.00	54,233
			2,678,778,369.77	1,819,116

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. GENERAL

The financial statements for the 2017 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 (3) HGB.

The annual financial statements and the report on the position of the company and of the Group of TLG IMMOBILIEN for the 2017 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 2017 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 VALUATION METHODS

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

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

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

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

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

Low-value assets with a net individual value of up to EUR 150 have been depreciated or amortised in full or recognised as expenses in the year in which they were acquired; it is assumed that they are disposed of immediately. With regard to assets 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 less reductions for vacancies and default risks.

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

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

The provisions for pensions and similar obligations are determined by means of the projected unit credit method in combination with the 2005G mortality tables published by Dr Klaus Heubeck. They were discounted using the average market interest rate based on an assumed remaining term of 15 years of 3.68% (previous year 4.01%). 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 670,172 which is subject to distribution restrictions according to Sec. 253 (6) HGB. As expected, salary increases and fluctuations were not taken into account. Expected pension increases were taken into account at a rate of 2% (previous year 2%) or, if committed to, at a rate of 1% (previous year 1%).

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

Liabilities were recognised at their settlement amounts.

In order to calculate deferred taxes due to temporary or semi-permanent differences between the measurement of assets, liabilities, deferrals and accruals under commercial law and their measurement for tax purposes or tax loss carry forwards, 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.

Of the loans to affiliates totalling EUR k 240,640, EUR k 190,920 is attributable to a loan to WCM Beteiligungs- und Grundbesitz Aktiengesellschaft and EUR k 18,337 and EUR k 31,384 are attributable to TLG EH1 GmbH and TLG EH2 GmbH for the purposes of refinancing financial liabilities.

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

Of the receivables from affiliated companies, EUR k 2,091 is essentially attributable to the transfer of profits under profit and loss transfer agreements.

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

4. EQUITY AND LIABILITIES

SHARE CAPITAL

TLG IMMOBILIEN has a share capital of EUR 102.0 m. The share capital is divided into 102,028,821 no-par shares with a theoretical par value of EUR 1.00 per share.

CAPITAL INCREASE IN EXCHANGE FOR CASH CONTRIBUTIONS IN JANUARY 2017

Following the capital increase in exchange for cash contributions passed by the Management Board on 30 January 2017, with the approval of the Supervisory Board and making partial use of the Authorised Capital 2016, the company's share capital of EUR k 67,432, divided into 67,432,326 ordinary bearer shares with a notional value of EUR 1.00, was increased by EUR k 6,743 to EUR k 74,176 by the issue of 6,743,232 no-par value bearer shares. The shares issued in January 2017 have a notional value of EUR 1.00 and entitlement to dividends from 1 January 2016.

CAPITAL INCREASE IN EXCHANGE FOR CONTRIBUTIONS IN KIND IN OCTOBER 2017

On 27 June 2017, TLG IMMOBILIEN AG published the offer document for its voluntary public takeover offer to the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (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 corresponds 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 of EUR k 74,176, divided into 74,175,558 ordinary bearer shares with a notional value of EUR 1.00, was increased by EUR k 20,436 to EUR k 94,611 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 which were transferred to the exchange trustee for the shareholders of WCM AG. According to a contribution agreement dated 4 October 2017, the exchange trustee transferred the WCM shares to the company as contributions in kind upon the registration of the takeover capital increase.

CAPITAL INCREASE IN EXCHANGE FOR CASH CONTRIBUTIONS IN NOVEMBER 2017

Following the capital increase in exchange for cash contributions passed by the Management Board on 9 November 2017, with the approval of the Supervisory Board and making partial use of the Authorised Capital 2016, the company's share capital of EUR k 94,611, divided into 94,611,266 ordinary bearer shares with a notional value of EUR 1.00, was increased by EUR k 7,418 to EUR k 102,029 by the issue of 7,417,555 no-par value bearer shares.

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 under the circumstances set out for the authorised capital 2017/II, the subscription rights of the shareholders can be excluded.

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 domination agreement signed with them.

CAPITAL RESERVES

Due to the increases in share capital, the capital reserves have increased by EUR k 624,578 from EUR k 486,343 to EUR k 1,110,921.

RETAINED EARNINGS

While preparing the annual financial statements, the Management Board allocated EUR 13.0 m of the net income for the year to other retained earnings.

NET RETAINED PROFIT

By resolution of the general meeting on 23 May 2017, a dividend of EUR k 59,340 was paid to the shareholders from the net retained profit for 2016 and EUR k 1,484 was transferred to profit carryforward. The net retained profit therefore comprises a profit carryforward of EUR k 1,484.

PROVISIONS

The other provisions totalling EUR 13.9 m mainly concern personnel expenses (EUR 2.1 m), long-term bonus schemes (EUR 2.4 m), expenses related to letting activities (EUR 3.6 m), outstanding invoices (EUR 1.7 m), litigation risks (EUR 0.2 m) and potential losses for interest rate hedges (EUR 0.5 m).

LIABILITIES

The liabilities have the following terms:

Liabilities	31/12/2017 Total EUR m	31/12/2017 Up to 1 year EUR m	31/12/2017 1–5 years EUR m	31/12/2017 More than 5 years EUR m	31/12/2016 Total EUR m	31/12/2016 Up to 1 year EUR m
from the issuance of bonds	400.0	0.0	0.0	400.0	0.0	0
due to financial institutions	854.2	13.9	230.0	610.3	1,044.4	65.5
from prepayments received	30.8	30.8	0.0	0.0	23.5	23.5
from goods and services	3.5	3.5	0.0	0.0	6.2	6.2
to affiliated companies	17.5	17.5	0.0	0.0	9.3	9.3
other liabilities	4.2	3.5	0.2	0.4	4.9	4.0
Total	**1,310.2**	**69.2**	**230.2**	**1,010.7**	**1,088.3**	**108.5**

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 17.5 m) mainly consist of the claims of subsidiaries resulting from the cash management measures implemented by TLG IMMOBILIEN, although EUR k 5,984 is attributable to the assumption of losses under profit and loss transfer agreements.

Of the other liabilities totalling EUR 4.2 m, EUR 1.0 m consists of grants for leased properties that have to be passed on to the lessees in the form of reduced payments over the term of the lease.

The deferred income of EUR k 753 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	31/12/2017 EUR k	31/12/2016 EUR k	Change EUR k
Property, plant and equipment (offset)	−34,135	−11,013	−23,121
Trade receivables	136	379	−243
Special tax item (Sec. 6b EStG)	−35,978	−48,575	12,597
Pension provisions	584	534	50
Other provisions	1,296	772	524
Deferred taxes for temporary differences	**−68,096**	**−57,903**	**−10,193**
Deferred tax assets on (tax) interest carryforward	7,015	3,670	3,345
Deferred tax assets for unused losses	61,081	0	61,081
Deferred tax liabilities after offsetting	**0**	**−54,233**	**54,233**

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 249.0 m (previous year EUR 186.2 m) comprises EUR 164.6 m (previous year EUR 153.7 m) from letting activities, EUR 83.7 m (previous year EUR 32.0 m) from the sale of land and EUR 0.7 m (previous year EUR 0.6 m) from other goods and services. The income from letting activities contains EUR 3.6 m in income from other periods.

Of the other operating income totalling EUR 20.1 m, EUR 3.7 m is attributable to income from the reversal of provisions. It also contains EUR 0.5 m in income from other periods. It contains income of EUR 0.4 m from the reversal of the special item for investment subsidies and grants. The income from reversals of write-downs of land and buildings was EUR 12.0 m.

6. EXPENSES

The amortisation of intangible assets and depreciation of property, plant and equipment contains write-downs to the lower fair value totalling EUR 10.1 m due to a permanent impairment.

The other operating expenses of EUR 18.4 m contain impairments of receivables and other assets (EUR 0.7 m). This includes EUR 4.8 m in one-off expenses resulting from capital increases.

The interest and similar expenses contain one-off expenses of EUR 20.1 m for the premature repayment of loans and interest rate hedges in connection with liability structure optimisation measures. The discounting of the pension provisions contains interest of EUR k 462 (previous year EUR k 244).

The income taxes comprise income of EUR 55.6 m resulting in particular from tax revenue from prior periods (EUR 3.0 m) and the reversal of deferred tax liabilities due to the identification of tax loss carryforwards (EUR 54.2 m).

7. CONTINGENT LIABILITIES

Of the credit of TLG IMMOBILIEN, EUR 1.1 m is restricted. Under credit facility agreements with two banks, TLG IMMOBILIEN has undertaken to pledge EUR 0.5 m in account balances (equal to the utilisation of the credit facilities) to the banks as collateral for issued guarantees that had not expired by the end of the term of the credit facility. TLG IMMOBILIEN has duly fulfilled its obligations so far and has not had to resort to pledged credit. It is therefore unlikely that TLG IMMOBILIEN will be sued by the banks.

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

Until the end of the following financial year, TLG IMMOBILIEN is liable towards affiliated companies whose liabilities it has undertaken to assume for the purposes of the regulations on exemption in Sec. 264 (3) HGB and Sec. 264b 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 financial position 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
2010	84
2019	271
2020	57
Total	**412**

Of the total amount, EUR k 20 is attributable to rental agreements, EUR k 175 is attributable to service contracts and EUR k 217 is attributable to leases.

The company has a commitment of EUR 6.6 m for contracted measures for investments in its property portfolio as well as acquisition projects where the services have not yet been rendered. The company also has other commitments that can be considered conventional for its line of business.

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

Type	Amount as at 31/12/2017 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	397.1	−2.3	−0.3	n/a
Interest rate derivatives not used as hedges	345.7	0.5	−0.2	Other provisions
Total	**742.8**	**−1.8**	**−0.5**	

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

The following valuation units were formed:

Underlying transaction/hedging instrument	Risk/type of valuation unit	Amount paid	Extend of the hedged risk
Loans to financial institutions/interest rate derivatives	Interest rate risk/micro-hedges	EUR 742.8 m	EUR 742.8 m

The avoided provision for impending losses in connection with the hedging instruments amounted to EUR 4.7 m.

The current cash flows from the underlying and hedging transactions are expected to balance one another out almost entirely in the 2018–2026 hedging period as the risk policies of the Group require risk-weighted items (the underlying transactions) to be secured by interest rate hedges of equal value and with the same currency and term as soon as they are created.

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

10. TRANSACTIONS WITH RELATED COMPANIES AND PARTIES

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

11. ASSETS HELD IN TRUST

TLG IMMOBILIEN holds credit from rental deposits totalling EUR 3.3 m in trust (previous year EUR 3.1 m).

12. SUBSEQUENT EVENTS

On 9 February 2018, the domination agreement signed by TLG IMMOBILIEN AG and WCM Beteiligungs- und Grundbesitz Aktiengesellschaft, Frankfurt/Main (WCM AG), was entered into the commercial register of the local court of Frankfurt/Main. The domination agreement with TLG IMMOBILIEN as the controlling entity and WCM AG as the controlled entity has therefore come into effect. Instead of on 9 February 2018, according to Sec. 10 HGB, the entry of the domination agreement in the electronic information and communication system at *www.handelsregister.de* determined by the state judiciary administration took place on 16 February 2018. Therefore, the deadline of the offer would have expired at midnight on 16 April 2018 (CEST). 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 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. The general meetings of TLG IMMOBILIEN AG and WCM AG had each approved the agreement with a wide majority on 22 November 2017 and 17 November 2017 respectively.

SETTLEMENT OFFER TO THE OUTSIDE SHAREHOLDERS OF WCM AG

Under the domination agreement, TLG IMMOBILIEN AG 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 AG for 23 shares of WCM AG. The outside shareholders of WCM AG may accept this exit compensation starting on the date of publication of the offer. Instead of on 9 February 2018, according to Sec. 10 HGB, the entry of the domination agreement in the electronic information and communication system at *www.handelsregister.de* determined by the state judiciary administration took place on 16 February 2018. Therefore, the deadline of the offer would have expired at midnight on 16 April 2018 (CEST). 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 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.

FAIR COMPENSATION FOR OUTSIDE SHAREHOLDERS OF WCM AG

TLG IMMOBILIEN AG guarantees outside shareholders of WCM AG who do not wish to accept the exit compensation a fixed annual payment in the form of a guaranteed dividend as fair compensation for the duration of the domination agreement. The guaranteed dividend for each financial year of WCM AG and each bearer share of WCM representing a notional value of EUR 1.00 in the share capital of WCM AG amounts to a gross amount of EUR 0.13 per share (the "Gross Compensation Amount"), less any corporate income tax and solidarity surcharge at the prevailing rate for the relevant financial year (the "Net Compensation Amount"). Based on the circumstances at the time of the entering into force of the 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 domination 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.

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 106 permanent and three temporary personnel. Additionally, it employed an average of four apprentices and one member of staff on maternity leave.

15. MANAGEMENT BOARD

The Management Board has the following members:

- Peter Finkbeiner,
- Niclas Karoff

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

In 2017, the total remuneration of the Management Board was EUR k 1,238.

In September 2014, a long-term incentive (LTI) programme was agreed for each financial year from 2015 to 2018 for the members of the Management Board. An LTI tranche covers a four-year period. Completion of the defined objectives is determined at the end of the fourth year by means of a comparison between current progress and the target. The amount of LTI remuneration is contingent on the completion of certain objectives. In this regard, the major objectives are the improvement of the net asset value and the TLG IMMOBILIEN AG share price compared to the relevant EPRA Europe Index. The programme contains an option as to the type of settlement for the company and is treated as a share-based payment settled in equity instruments in accordance with IFRS 2. The fair value on the settlement date was EUR k 2,465.

In 2017, the total remuneration for former members of the management was EUR k 153 from pensions. As at 31 December 2017, the pension provisions for former members of the management totalled EUR k 2,175.

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

16. SUPERVISORY BOARD

The Supervisory Board consists of the following members:

Michael Zahn (Chairperson)
Chairperson of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin
Chairperson of the market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin
CEO of Deutsche Wohnen AG, Berlin
Chairperson of the Supervisory Board of GSW Immobilien AG, Berlin
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 Supervisory Board of Scout24 AG, Munich
Member of the Advisory Board of DZ Bank AG, Frankfurt/Main
Member of the Advisory Board of Füchse Berlin Handball GmbH, Berlin
Member of the Real Estate Advisory Board of GETEC Wärme & Effizienz AG, Magdeburg

Dr Michael Bütter (Vice-chairperson)
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin
Member of the market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin
Member of the project development committee of TLG IMMOBILIEN AG, Berlin
Member of the Executive Committee and Group General Counsel, Scout 24 AG, Berlin
Member of the Board of Directors, ADO Properties S.A., Luxembourg
Chairperson of the Audit Committee, ADO Properties S.A., Luxembourg
Member of the Investment and Finance Committees, ADO Properties S.A., Luxembourg
Member of the Advisory Board of Corestate Capital Holding S.A., Luxembourg
Member of the Supervisory Board of Assmann Beraten + Planen AG, Berlin

Sascha Hettrich – since 5 March 2018
CEO INTOWN Group, Berlin
Managing director of INTOWN Property Management GmbH, Berlin
Managing director of Hettrich Tomorrow GmbH, Managing director of Management Consulting & Venture Capital, Berlin

Stefan E. Kowski – since 21 February 2018
Partner at Novalpina Capital LLP, London

Frank D. Masuhr* – since 10 February 2017
Chairperson of the project development committee of TLG IMMOBILIEN AG, Berlin
Vice-chairperson of the Supervisory Board of WCM Beteiligungs- und Grundbesitz-AG
Vice-chairperson of the Supervisory Board of ASSMANN Beraten + Planen AG, Berlin
Co-founder and Managing Partner of Vermont Partners AG, Baar (Switzerland)

** until 31 January 2018*

Dr Claus Nolting
Member of the audit committee of TLG IMMOBILIEN AG, Berlin
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin
Lawyer and consultant
Vice-chairperson of the Supervisory Board of IKB Deutsche Industriebank, Düsseldorf
Chairperson of the risk and audit committee of IKB Deutsche Industriebank, Düsseldorf
Member of the nomination committee of IKB Deutsche Industriebank, Düsseldorf
Member of the remuneration management committee of IKB Deutsche Industriebank, Düsseldorf
Member of the Supervisory Board of Hamburg Trust Real Estate Management GmbH, Hamburg
Member of the Supervisory Board of LEG Immobilien AG, Düsseldorf
Chairperson of the Supervisory Board of MHB-Bank AG, Frankfurt/Main

Elisabeth Talma Stheeman*
Member of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin
Independent Non-Executive Board Director, London
Governor of the London School of Economics (LSE), London
Member of the audit committee of the London School of Economics (LSE), London
Vice-chairperson of the financial committee of the London School of Economics (LSE), London
Senior Advisor, Bank of England / Prudential Regulation Authority (PRA), London
Member of the Supervisory Board of Aareal Bank AG, Wiesbaden
Vice-chairperson of the risk committee of Aareal Bank AG, Wiesbaden
Member of the technology and innovation committee of Aareal Bank AG, Wiesbaden

** until 29 January 2018*

Helmut Ullrich
Chairperson of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin
Member of the market and acquisitions committee of the Supervisory Board of TLG IMMOBILIEN, Berlin
Member of the project development committee of TLG IMMOBILIEN AG, Berlin
Chairperson of the Supervisory Board of WCM Beteiligungs- und Grundbesitz-AG
Member of the Supervisory Board of GSW Immobilien AG, Berlin
Chairperson of the audit committee of GSW Immobilien AG, Berlin

The total remuneration of the Supervisory Board in the 2017 financial year was EUR k 516. Additionally, the members are paid a net attendance fee of EUR 1,500 per day every time they attend a meeting. More information on the remuneration of the Supervisory Board is available in the report on the position of the company and the Group (Remuneration Report).

17. PROPOSED APPROPRIATION OF PROFITS

In accordance with the German Stock Corporation Act (AktG), the general meeting resolves on the appropriation of the net retained profits presented in the annual financial statements. The payment of a dividend of EUR 0.82 per no-par value share from the net retained profit, based on 102.0 m shares as at 31 December 2017, 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 profits by the company. After the general meeting, the resolution on the appropriation of the net retained profits will be published in the Federal Gazette.

18. SHAREHOLDING

As at 31 December 2017, TLG IMMOBILIEN held direct and indirect interests in the following companies. Unless indicated otherwise, the figures were valid as at 31 December 2017.

	Name and registered offices of the company	Shareholding	Equity as at 31/12/2017 in EUR k	Results of the 2017 financial year in EUR k	Shareholding Direct/indirect
1	Aschgo GmbH & Co. KG, Berlin[1]	94.00%	6,748	−62	Indirect
2	Barisk GmbH & Co. KG, Berlin[1]	94.00%	3,624	2	Indirect
3	Berkles GmbH & Co. KG, Berlin[1]	94.00%	3,312	−148	Indirect
4	Greenman 1D GmbH, Berlin[2, 4]	94.00%	5,286	0	Indirect
5	Hotel de Saxe an der Frauenkirche GmbH, Dresden[2, 3]	100.00%	22,200	0	Direct
6	Main Triangel Gastronomie GmbH, Berlin[2]	100.00%	13	−101	Indirect
7	TLG EH1 GmbH Berlin (formerly PEREF Priscus S.á. r.l., Luxembourg)	94.90%	16,230	2,527	Direct
8	TLG EH2 GmbH, Berlin (formerly PEREF Verus S.á r.l., Luxembourg)	94.90%	27,278	6,313	Direct
9	River Berlin Immobilien GmbH & Co. KG, Berlin[1]	94.90%	2,025	118	Indirect
10	River Bonn Immobilien GmbH & Co. KG, Berlin[1]	94.90%	2,242	−13	Indirect
11	River Düsseldorf Immobilien GmbH & Co. KG, Berlin[1]	94.90%	1,121	−83	Indirect
12	River Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90%	14,301	−5	Indirect
13	TLG CCF GmbH, Berlin[2, 3, 5]	100.00%	94,025	0	Direct
14	TLG FAB S.à r.l., Luxembourg	94.90%	29,648	1,765	Direct
15	TLG Fixtures GmbH, Berlin[2, 3]	100.00%	359	0	Direct
16	TLG MVF GmbH, Berlin[2, 3, 5]	100.00%	73,025	0	Direct
17	TLG Sachsen Forum GmbH, Berlin[2, 3]	100.00%	24,104	0	Direct
18	Triangel Frankfurt Immobilien GmbH & Co. KG, Berlin[1]	94.90%	14,519	−2,161	Indirect
19	WCM Besitzgesellschaft mbH & Co. KG, Berlin[1]	100.00%	19	−6	Indirect
20	WCM Beteiligungs- und Grundbesitz-AG, Berlin	85.89%	243,286	−7,025	Direct
21	WCM Beteiligungsgesellschaft mbH & Co. KG, Berlin[1]	100.00%	−1,057	−1,082	Indirect
22	WCM Handelsmärkte I GmbH, Berlin[2]	94.90%	208	−289	Indirect
23	WCM Handelsmärkte II GmbH, Berlin[2]	94.90%	709	220	Indirect
24	WCM Handelsmärkte III GmbH & Co. KG, Berlin[1]	88.00%	195	444	Indirect
25	WCM Handelsmärkte IV GmbH & Co. KG, Berlin[1]	94.90%	17,859	2,094	Indirect
26	WCM Handelsmärkte IX GmbH & Co. KG, Berlin[1]	94.80%	6,409	−127	Indirect
27	WCM Handelsmärkte V GmbH & Co. KG, Berlin[1]	100.00%	82	−11	Indirect
28	WCM Handelsmärkte VI GmbH & Co. KG, Berlin[1]	100.00%	82	−11	Indirect
29	WCM Handelsmärkte VII GmbH & Co. KG, Berlin[1]	94.90%	6,344	−474	Indirect
30	WCM Handelsmärkte VIII GmbH & Co. KG, Berlin[1]	94.00%	−191	52	Indirect
31	WCM Handelsmärkte X GmbH & Co. KG, Berlin[1]	94.80%	6,004	113	Indirect
32	WCM Handelsmärkte XI GmbH & Co. KG, Berlin[1]	94.80%	4,598	227	Indirect
33	WCM Handelsmärkte XII GmbH & Co. KG, Berlin[1]	94.80%	2,188	−26	Indirect
34	WCM Handelsmärkte XIII GmbH & Co. KG, Berlin[1]	94.00%	1,798	−529	Indirect
35	WCM Handelsmärkte XIV GmbH & Co. KG, Berlin[1]	94.00%	4,962	−133	Indirect
36	WCM Handelsmärkte XV GmbH & Co. KG, Berlin[1]	94.00%	5,593	210	Indirect
37	WCM Handelsmärkte XVI GmbH & Co. KG, Berlin[1]	94.00%	1,056	−220	Indirect
38	WCM Handelsmärkte XVII GmbH, Berlin[2]	94.90%	1,020	−481	Indirect
39	WCM Office I GmbH, Berlin[2]	94.90%	3,622	−65	Indirect
40	WCM Office II GmbH & Co. KG, Berlin[1]	94.90%	2,683	−854	Indirect
41	WCM Office III GmbH, Berlin[2]	94.90%	617	−471	Indirect
42	WCM Office IV GmbH & Co. KG, Berlin[1]	94.90%	2,117	53	Indirect
43	WCM Technical Services GmbH, Berlin[2]	100.00%	22	0	Indirect
44	WCM Technical Services II GmbH, Berlin[2]	100.00%	37	3	Indirect
45	WCM Vermögensverwaltung GmbH & Co. KG, Berlin[1]	100.00%	33,848	−62	Indirect
46	WCM Verwaltungs GmbH, Berlin[2]	100.00%	81	27	Indirect
47	WCM Verwaltungs II GmbH, Berlin[2]	100.00%	28	−1	Indirect
48	WCM Verwaltungs III GmbH & Co. KG, Berlin[1]	100.00%	−2,381	−2,372	Indirect
49	WCM Verwaltungs IV GmbH & Co. KG, Berlin[1]	100.00%	−203	−215	Indirect
50	WCM Verwaltungs V GmbH, Berlin[2]	100.00%	29	4	Indirect
51	WCM Verwaltungs VI GmbH, Berlin[2]	100.00%	26	1	Indirect
52	WCM Verwaltungs VII GmbH, Berlin[2]	100.00%	35	10	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 Profit transfer agreement with WCM Beteiligungsgesellschaft mbH & Co. KG
5 Financial year that differs from the calendar year; latest financial statements available as at 30/06/2017

As a rule, the financial statements have not yet been ratified. The equity and net income are based on German GAAP or local GAAP of the country in which each company is based.

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 2017 according to Sec. 21 (1) or (1a) of the German Securities Trading Act (WpHG) or from January 2018 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 *ir.tlg.eu > 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. 21 and 22 WpHG (new) [1]	Proportion of voting rights (new) in %	Reason for notification and affected threshold values	Proportion of instruments in the sense of Sec. 25 (1) WpHG [2] in %	Date threshold reached	Addition of voting rights in the sense of Sec. 22 WpHG [3]	Companies that have allocated 3% or more
Prof. Gerhard Schmidt	17,697,791	17.35	Voluntary Group notification	7.25	22/02/2018	Yes	DIC Real Estate Investments GmbH & Co. Kommanditgesellschaft auf Aktien
ADAR Capital Partners Ltd.	17,164,412	16.82	Acquisition/disposal of shares with voting rights Voting rights (crossing 15%) Voting rights and instruments (crossing 20%)	1.34	22/01/2018	Yes	ADAR Macro Fund Ltd.
ADAR Macro Fund Ltd.	17,164,412	16.82	Acquisition/disposal of shares with voting rights Voting rights (crossing 15%) Voting rights and instruments (crossing 20%)	1.34	22/01/2018	No	
Government of Singapore, acting by and through the Ministry of Finance	8,748,138	9.25	Share capital increase Voting rights (shortfall 10%)		06/10/2017	Yes	GIC Private Limited
Julius Baer Group Ltd.	5,830,975	5.72	Voluntary Group notification	1.33	29/11/2017	Yes	KAIROS INTERNATIONAL SICAV
RAG-Stiftung	3,150,000	4.25	Acquisition/disposal of shares with voting rights Voting rights (crossing 3%)		30/06/2017	No	
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	
BlackRock, Inc.	3,410,240	3.34	Acquisition/disposal of shares with voting rights (crossing 3%)	0.54	13/02/2018	Yes	
Kairos International SICAV	2,279,101	3.07	Acquisition/disposal of shares with voting rights Voting rights (crossing 3%)		31/05/2017	No	
Artemis Investment Management LLP	2,018,896	2.99	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		24/11/2016	Yes	
Allianz Global Investors GmbH	2,107,141	2.84	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		19/07/2017	Yes	
Cohen & Steers, Inc.	1,792,870	2.42	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)		11/05/2017	Yes	
Welwel Investments Ltd.	1,750,000	2.36	Change to Group structure Voting rights (shortfall 3%)		15/05/2017	No	
UBS Group AG	227,074	0.24	Acquisition/disposal of shares with voting rights Voting rights (shortfall 3%)	0.45	09/10/2017	Yes	

Entity obliged to report	Voting rights in the sense of Sec. 21 and 22 WpHG (new)[1]	Proportion of voting rights (new) in %	Reason for notification and affected threshold values	Proportion of instruments in the sense of Sec. 25 (1) WpHG[2] in %	Date threshold reached	Addition of voting rights in the sense of Sec. 22 WpHG[3]	Companies that have allocated 3% or more
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	
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	
Mr Mans Larsson	0	0	Statement of holdings according to Sec. 41 (4f) WpHG	6.65	26/11/2015	n/a	
Royale Universal Inc.	0	0	Acquisition/disposal of instruments Voting rights and instruments (shortfall 5%)		01/05/2016	No	

[1] *From January 2018: Voting rights in the sense of Sec. 33 and 34 WpHG.*
[2] *From January 2018: Proportion of instruments in the sense of Sec. 38 (1) WpHG.*
[3] *From January 2018: Addition of voting rights in the sense of Sec. 34 WpHG.*

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, *ir.tlg.eu > Investor Relations > Corporate Governance*.

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, 7 March 2018

Peter Finkbeiner	Niclas Karoff
Member of	Member of
the Management Board	the Management Board

STATEMENT OF CHANGES IN FIXED ASSETS

01/01/2017–31/12/2017

		Historical costs				
		1/1/2017	Additions	Disposals	Reclassifications	12/31/2017
		EUR	EUR	EUR	EUR	EUR
A.	**Assets**					
I.	**Intangible assets**					
1.	Purchased software	7,612,183.45	122,248.89	4,153,447.82	0.00	3,580,984.52
2.	Prepayments made	0.00	839,011.11	0.00	0.00	839,011.11
		7,612,183.45	**961,260.00**	**4,153,447.82**	**0.00**	**4,419,995.63**
II.	**Property, plant and equipment**					
1.	Land, land rights and buildings, including buildings on third-party land	1,869,994,779.18	109,672,758.04	81,654,748.60	5,590,252.64	1,903,603,041.26
2.	Technical equipment and machinery	169,104.85	0.00	0.00	576,500.00	745,604.85
3.	Other equipment, operating and office equipment	2,099,714.93	247,929.89	181,307.27	0.00	2,166,337.55
4.	Prepayments and assets under construction	4,436,019.75	28,511,735.86	169,148.16	-6,166,752.64	26,611,854.81
		1,876,699,618.71	**138,432,423.79**	**82,005,204.03**	**0.00**	**1,933,126,838.47**
III.	**Financial assets**					
1.	Shares in affiliated companies	264,731,978.12	445,711,378.51	25,564.59	0.00	710,417,792.04
2.	Loans to affiliated companies	0.00	240,640,288.01	0.00	0.00	240,640,288.01
3.	Other loans	2,519,123.60	62,027.15	62,197.09	0.00	2,518,953.66
		267,251,101.72	**686,413,693.67**	**87,761.68**	**0.00**	**953,577,033.71**
		2,151,562,903.88	**825,807,377.46**	**86,246,413.53**	**0.00**	**2,891,123,867.81**

Cumulative depreciation					Carrying amounts	
1/1/2017	Additions	Disposals	Reversals of write-downs	12/31/2017	12/31/2017	12/31/2016
EUR	EUR	EUR	EUR	EUR	EUR	EUR
7,363,296.10	173,078.89	4,152,409.82	0.00	3,383,965.17	197,019.35	248,887.35
0.00	0.00	0.00	0.00	0.00	839,011.11	0.00
7,363,296.10	**173,078.89**	**4,152,409.82**	**0.00**	**3,383,965.17**	**1,036,030.46**	**248,887.35**
420,661,510.68	58,314,513.45	30,339,171.00	11,971,308.00	436,665,545.13	1,466,937,496.13	1,449,333,268.50
29,583.85	33,723.00	0.00	0.00	63,306.85	682,298.00	139,521.00
1,870,793.93	125,083.89	180,959.27	0.00	1,814,918.55	351,419.00	228,921.00
0.00	0.00	0.00	0.00	0.00	26,611,854.81	4,436,019.75
422,561,888.46	**58,473,320.34**	**30,520,130.27**	**11,971,308.00**	**438,543,770.53**	**1,494,583,067.94**	**1,454,137,730.25**
0.00	0.00	0.00	0.00	0.00	710,417,792.04	264,731,978.12
0.00	0.00	0.00	0.00	0.00	240,640,288.01	0.00
0.00	0.00	0.00	0.00	0.00	2,518,953.66	2,519,123.60
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**953,577,033.71**	**267,251,101.72**
429,925,184.56	**58,646,399.23**	**34,672,540.09**	**11,971,308.00**	**441,927,735.70**	**2,449,196,132.11**	**1,721,637,719.32**

REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

REPORT ON THE POSITION OF THE COMPANY AND OF THE GROUP IN 2017

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

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

- Portfolio management
  Thanks to a deep understanding of local markets and real estate, strategic services such as strategic portfolio management and monitoring, valuation and portfolio planning are rendered centrally.

- Asset management
  TLG IMMOBILIEN covers significant links in the real estate value chain internally. With the engineering and letting units, asset management is responsible for all measures on the level of the property that influence the value of a property.

- Transaction management
  With its many years of expertise, TLG IMMOBILIEN is exceptionally well connected in its core markets. This generates attractive opportunities for the company to grow and chances to sell properties for the best possible prices in line with its portfolio optimisation strategy.

- Property management
  Property management bears a decentralised responsibility for the commercial management of the properties, including tenant relations, and is in charge of external facility management.

The objective of the business activities is – in addition to the efficient management and development of the high-quality property portfolio – the continued expansion of the portfolio through profitable acquisitions of office, retail and hotel properties. Targeted acquisition of properties with potential for increased rents or moderate vacancy rates and the subsequent active asset management results in the potential to increase profitability via optimised letting and management. In addition to growth through acquisitions, the company remains focused on the disposal of non-strategic properties. Its objective is to ensure the high overall quality and profitability of its portfolio in the long term.

1.2 CONTROL SYSTEMS

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

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

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

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

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND PROPERTY MARKETS

2.1.1 General economic situation

Economic developments in Germany in 2017 were once again characterised by solid, steady economic growth. According to the calculations of the Federal Statistical Office, the average real gross domestic product (GDP) in 2017 was 2.2% higher than in the previous year. This means that the German economy has grown for the eighth year in a row. The GDP already grew by 1.7% in 2015 and 1.9% in 2016. Private consumption was the most significant driver. Private consumption expenditure, adjusted for price, was 2.0% higher than in the previous year, although government consumption expenditure increased at a below-average rate of 1.4%. In particular, gross capital investments increased at an above-average rate in 2017 compared to the previous year (3.0%). In terms of the generation of the gross domestic product, almost all economic sectors were able to make a positive contribution to the economic developments in 2017. The information and communication service sectors performed exceptionally well with growth of 3.9%, as well as retail, traffic and hospitality with growth of 2.9%. Industry – which generates around one quarter of the total gross added value without factoring in the construction industry – experienced similar growth of 2.5%. Compared to the previous year, the construction industry grew by 2.2%.

According to the Federal Statistical Office, an annual average of 44.3 m workers in Germany contributed to the country's economic output in 2017. This is the highest volume since the reunification of Germany. In 2017, around 638,000 more people were in gainful employment than in the previous year (an increase of 1.5%). This is the highest increase since 2007 and is due to an increase in employment subject to social security contributions. The higher labour participation and inflow of workers from abroad are balancing out age-related demographic effects. In 2017, for the fourth time in a row, the state generated a surplus of EUR 38.4 bn.

The general economic calculations for the first six months of 2017 reveal a strong increase in construction investments. The financing conditions remain exceptionally favourable. Additionally, demand remains high in light of the still positive economic situation and job market. Construction companies are finding it increasingly difficult to fill vacant positions. For one, construction price growth is slightly dampening demand for construction services.

The general conditions in the German market for investments in commercial properties remained thoroughly positive in 2017: strong lettings markets, a booming economy, low, stable interest rates and a still significant disparity between the yields of properties compared to government bonds. According to Jones

Lang LaSalle (JLL), the volume of transactions in the German commercial property market was around EUR 56.8 bn. This means that the record set in 2015 has not only been matched, but surpassed by EUR 1.7 bn. This represents an increase of 7% over 2016. Scarcity of supply and price growth have yet to cause the market to slow. However, investors in the markets are more and more frequently avoiding the seven largest German investment markets. They are increasingly focused on development projects, especially in A-rated cities.

Overall, according to JLL, around EUR 31.0 m was attributable to the investment markets in Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Munich and Stuttgart by the end of 2017 – an increase of 5% over the previous year. Berlin remains in first place with a transaction volume in excess of EUR 7.7 bn and a 56% increase over the previous year, followed by Frankfurt/Main with EUR 7.1 bn. Almost half (45%) of the commercial transaction volume is attributable to foreign investors. Meanwhile, yields remained under pressure: The net initial yield for office properties in 1A-rated locations in the seven metropolises has decreased by 29 basis points to 3.27%.

2.1.2 Development of the office property market

The healthy job market is ensuring growing demand for space and directly affecting the office letting markets in the service sector. According to JLL, the volume of turnover in the seven largest markets in 2017 was around 4.2 million sqm, surpassing the record level of the previous year by 7%. According to JLL, two markets passed the 900,000 sqm mark for the first time: Berlin with around 955,000 sqm and Munich with around 995,000 sqm.

Meanwhile, net absorption in the seven metropolises remains at a high level. According to JLL, the volume of occupied office space has increase by more than 1 million sqm. The demand is being driven by providers of flexible office workspaces in particular. New offices were rented out by traditional business centres as well as providers of co-working space.

In the meantime, the volume of available space continues to shrink dramatically: Vacancy rates in the A-rated cities were 4.7% at the end of 2017, which is their lowest level in 15 years. Overall, in absolute terms, just 4.3 million sqm of office space was still available at short notice in the metropolises at the end of 2017. As a result, the volume of vacant space has almost reached the same level as the turnover. Bottlenecks have appeared in some sub-markets of the seven largest cities – there are vacancy rates of only around 1% in Munich, Stuttgart and Berlin. The volume of construction was around 860,000 sqm and therefore around 22% lower than in the previous year. With the exception of Düsseldorf, the completion rates in each of the top seven cities decreased compared to 2016. The relative decreases ranged between 13% in Munich and 53% in Berlin. With the exception of Cologne, the top rents had increased in all seven metropolises by the end of 2017. The fastest growth took place in Berlin (11%), Stuttgart (5%), Munich and Hamburg (4% each).

2.1.3 Development of the retail property market

Consumer confidence in Germany was high at the end of 2017. According to the market research institute GfK, expectations as to the economy and income levels improved, although propensity to buy suffered slightly. The volume of retail turnover may have increased by around 3% in 2017. Between January and November, the nominal increase was 4.6% and the real increase was 2.7%. In this period, food turnover increased by 4.2% and non-food turnover by 4.7%. Despite these highly positive economic circumstances, the retail letting market did not end 2017 with a surge. With a total of 448,200 sqm over 1,055 new rental agreements, the volume of space declined by 7% compared to 2016. The number of new agreements decreased by 2%. Ordered by shop size, the new rental agreements signed over the past three years are consistently spread within the six size categories. Three quarters of the new rental agreements were for small and mid-sized spaces of up to 1,000 sqm. The textile segment was once again the most successful in 2017, although it has lost some of its dynamism and market dominance. This is also reflected in the volume of turnover.

2.1.4 Development of the hotel property market

According to the Federal Statistical Office, the number of overnight stays by guests in Germany between January and November 2017 increased by 3% compared to the same period in the previous year, reaching 431 m. This figure includes 78 m overnight stays by international guests (an increase of 4%) and 353 m overnight stays by German guests (an increase of 2%). Overall, the number of overnight stays in 2017 is likely to have reached a new record of around 459 m (an increase of 3%). This preliminary figure is a forecast based on the information available for the period between January and November 2017 and the December statistics for 2007 to 2016.

According to the German Hotel and Restaurant Association (DEHOGA), this positive trend is also reflected in the turnover of the hotel and restaurant industry. 79.1% of businesses were able to increase or maintain their turnover, whereas 20.9% experienced declines in turnover. Overall, DEHOGA expects turnover growth of 2% for 2017.

According to BNP Paribas Real Estate, at EUR 4.2 bn, the volume of investments therefore surpassed the EUR 4 bn mark for the third time in a row. However, as expected, it fell short of the record level of the previous year by around one fifth. However, this decrease is limited to portfolio transactions. Here, at less than EUR 1.1 bn, the volume is around half of the volume in the previous year. German buyers are slightly in front, making up 52%. They are followed by European investors (22%), North American investors (12%) and Asian investors (7%). Whereas real estate corporations and investment trusts were at the top of the list of the largest buyers in the previous year as a result of large-scale portfolio transactions, special funds were in first place in 2017 with 29%.

2.2 COURSE OF BUSINESS

General statement

In the 2017 financial year, TLG IMMOBILIEN was able to continue implementing its growth strategy successfully. Following the takeover of WCM Beteiligungs- und Grundbesitz Aktiengesellschaft (WCM) and the acquisition of other high-quality properties in connection with successful portfolio management, the property portfolio of TLG IMMOBILIEN was as follows as at 31 December 2017:

Key figures	Total	Office	Retail	Hotel	Other
Property value (EUR k)[1]	3,400,582	1,610,158	1,453,416	285,899	51,108
Annualised in-place rent (EUR k)[2]	214,057	91,215	101,810	16,276	4,756
In-place rental yield (%)	6.3	5.7	7.0	5.6	9.2
EPRA Vacancy Rate (%)	3.6	5.0	2.1	2.3	8.0
WALT (years)	6.3	5.2	6.3	12.2	8.2
Properties (number)	426	68	301	7	50
Lettable area (sqm)	**1,875,072**	**745,542**	**920,394**	**109,519**	**99,617**

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

As at 31 December 2017, the property portfolio of TLG IMMOBILIEN comprised 426 properties (previous year 404) with a fair value (IFRS) of around EUR 3.401 bn (previous year around EUR 2.242 bn). Besides market-related adjustments, this 51.7% increase is due primarily to the takeover of WCM in the 2017 financial year as well as other new additions to the portfolio. At EUR 1.003 bn, the acquisitions in 2017 and the addition of WCM make up 29.5% of the property portfolio. The fair value of the acquisitions between 2014 and 2017, including WCM, has therefore increased by 53.3% to EUR 1.812 bn.

As at 31 December 2017, the acquisitions in 2017 plus WCM were as follows, broken down by asset class:

Asset class	TLG/WCM acquisition	Properties (number)	Property value (EUR m) [1]	Annualised in-place rent (EUR m)	WALT (years)	EPRA Vacancy Rate (%)
Office	TLG	1	95.9	5.1	4.4	22.6
Office	WCM	11	359.4	17.8	7.2	9.2
Office acquisitions in 2017		**12**	**455.4**	**22.9**	**6.6**	**12.6**
Retail	TLG	28	106.8	7.2	6.6	1.0
Retail	WCM	45	440.7	29.2	7.8	3.7
Retail acquisitions in 2017		**73**	**547.6**	**36.4**	**7.5**	**3.2**
Total acquisitions in 2017		**85**	**1,002.9**	**59.3**	**7.2**	**7.1**

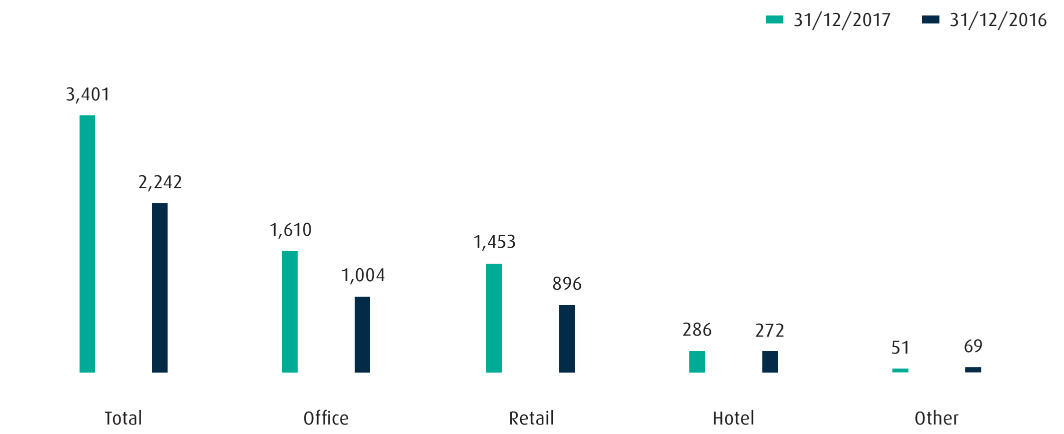
[1] In line with values disclosed according to IAS 40.
[2] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

Rounding differences possible

Alongside further acquisitions, the 2017 financial year was characterised by the takeover of WCM. Based on their fair values, the properties of WCM made up 79.8% of the acquisitions as at 31 December 2017. Including the takeover of WCM, only office and retail properties were acquired in 2017, with retail slightly dominant at 54.6%. Representing 67.3% of the total acquisition volume, the focus was on western Germany, with Frankfurt/Main making up the largest share with 26.3% of the acquisitions.

The property values in the individual asset classes developed as follows:

in EUR m



The value of the overall portfolio increased by EUR k 1,158,968 in the reporting year, of which 86.5% is due to acquisitions including the takeover of WCM. On a like-for-like basis, i.e. without factoring in the acquisitions and disposals in 2017, its value increased by 10.6% due to the positive market developments, especially in Berlin, and the asset management of TLG IMMOBILIEN. As a result, the office properties increased by 60.4% to EUR k 1,610,158 (previous year EUR k 1,004,110) and retail properties increased by 62.2% to EUR k 1,453,416 (previous year EUR k 896,198). With a 47.3% share of the value of the portfolio (previous year 44.8%), office properties are the strongest asset class followed by retail properties with 42.7% (previous year 40.0%) and hotels with 8.4% (previous year 12.1%).

In the reporting year, the acquisitions combined with asset management led to a 37.9% increase in annualised in-place rent to EUR k 214,057 (previous year EUR k 155,276). A like-for-like comparison reveals a total increase of 4.1% resulting from rental growth in all asset classes, with office properties experiencing the strongest growth at 6.3% followed by retail properties with 2.8%. At 3.6% for the entire portfolio (previous year 3.8%), the EPRA Vacancy Rate decreased slightly, although a comparison on a like-for-like basis reveals almost full occupancy following the 1.6 percentage point reduction in the EPRA Vacancy Rate to just 2.2%. The weighted average lease term (WALT) of the temporary rental agreements increased slightly from 6.1 years to 6.3 years. On a like-for-like basis, the reduction of the WALT by 0.2 years to 6.0 years was stabilised by new rental agreements and extensions of rental agreements.

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

2.3.1 Financial performance

The positive net income of TLG IMMOBILIEN was EUR k 284,373 in the 2017 financial year, reflecting the positive development of the overall Group. In line with the growth strategy of the company, the takeover of WCM was announced in October 2017 and its rapid integration into the TLG IMMOBILIEN Group was initiated, leading to the consolidation of WCM with TLG IMMOBILIEN.

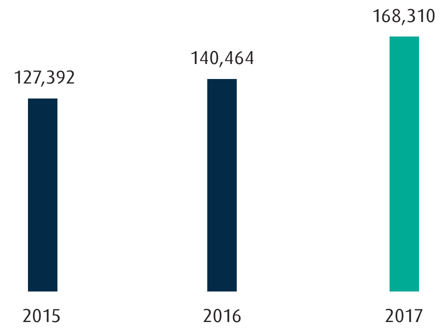
The income was EUR k 190,264 higher than in the previous year, due mainly to the positive influence of the EUR k 178,749 higher result from the remeasurement of investment property. Additionally, the EUR k 27,960 increase in rental income had a positive effect. The table below presents the financial performance:

in EUR k	01/01/2017–31/12/2017	01/01/2016–31/12/2016	Change	Change in %
Net operating income from letting activities	**153,548**	**125,588**	**27,960**	**22.3**
Result from the remeasurement of investment property	218,609	39,860	178,749	448.4
Result from the disposal of investment property	2,681	6,381	−3,700	−58.0
Result from the disposal of real estate inventories	−120	10	−130	n/a
Other operating income	1,909	777	1,132	145.7
Personnel expenses	−12,001	−11,261	−740	6.6
Depreciation and amortisation	−466	−561	95	−16.9
Other operating expenses	−17,997	−7,140	−10,857	152.1
Earnings before interest and taxes (EBIT)	**346,163**	**153,654**	**192,509**	**125.3**
Financial income	117	313	−196	−62.6
Financial expenses	−44,617	−25,650	−18,967	73.9
Result from the remeasurement of derivative Financial instruments	5,664	299	5,365	n/a
Earnings before taxes	**307,327**	**128,616**	**178,711**	**138.9**
Income taxes	−22,955	−34,507	11,552	−33.5
Net income	**284,373**	94,109	190,264	202.2
Other comprehensive income (OCI)	8,207	−2,044	10,251	n/a
Total comprehensive income	**292,580**	**92,065**	**200,515**	**217.8**

In 2017, the net operating income from letting activities was EUR k 153,548 which represents an increase of EUR k 27,960 compared to the previous year, due primarily to the new investments and the consolidation of WCM in the fourth quarter. Additionally, significantly more operating costs were recharged to tenants than originally expected. Rental income developed as follows:

Rental income

in EUR k



In the 2017 financial year, the result from the remeasurement of investment property was EUR k 178,749 higher than in the same period in 2016, reaching EUR k 218,609. The excellent measurement gains are essentially the result of the favourable market conditions and are largely attributable to Berlin and the office asset class.

Compared to the same period in the previous year, the result from the disposal of properties decreased by EUR k 3,830 to EUR k 2,561.

Other operating income was EUR k 1,909; EUR k 1,132 higher than in the previous year. Essentially, it was influenced by EUR k 781 from the reversal of allowances resulting from rent receivable and income of EUR k 432 from prior periods.

In the 2017 financial year, personnel expenses increased by EUR k 740 to EUR k 12,001, due primarily to the takeover of WCM.

Compared to the same period in the previous year, other operating expenses increased by EUR k 10,857 to EUR k 17,997. Of the increase, EUR k 8,043 was due to transaction costs in connection with the takeover of WCM. In line with expectations, other items of administrative expenditure have also increased compared to the previous year due to the growth strategy of the company.

In 2017, financial expenses increased by EUR k 18,967 compared to the previous year, reaching EUR k 44,617. The cause of this was expenses of EUR k 19,198 for the premature repayment of loans and interest rate hedges in connection with liability structure optimisation measures, as well as for the premature repayment of loans in the context of disposals of properties.

In the 2017 financial year, there was income of EUR k 5,664 from the remeasurement of derivative financial instruments (previous year EUR k 299) due primarily to current market developments and the interest rates in 2017, as well as the discontinuation of hedge accounting at the start of the second quarter of 2017.

The income taxes comprise ongoing income taxes of EUR k 4,222, items for actual income taxes of EUR k 3,066 from other periods and deferred taxes of EUR k 21,799. The significant decrease in income taxes despite the significantly higher earnings before taxes is due to the conclusion of the audit for 2012 to 2015 which led to the reassessment of a forfeiture of losses in previous years. The items for actual income taxes from other periods are essentially the result of tax claims due to the new loss carryforwards for 2016. Deferred tax claims have been formed for the remaining and as yet unused tax losses; deferred tax income of EUR k 70,094 was therefore recognised in the 2017 financial year. Otherwise, please see the income tax reconciliation (section F.9 of the notes to the consolidated financial statements).

EBITDA calculation

in EUR k	01/01/2017–31/12/2017	01/01/2016–31/12/2016	Change	Change in %
Net income	**284,373**	**94,109**	**190,264**	**202.2**
Income taxes	22,955	34,507	–11,552	–33.5
EBT	307,327	128,616	178,711	138.9
Net interest	44,500	25,337	19,163	75.6
Result from the remeasurement of derivative financial instruments	–5,664	–299	–5,365	n/a
EBIT	346,163	153,654	192,509	125.3
Depreciation and amortisation	466	561	–95	–16.9
Result from the remeasurement of investment property	–218,609	–39,860	–178,749	448.4
EBITDA	**128,020**	**114,355**	**13,665**	**11.9**

In the 2017 financial year, TLG IMMOBILIEN generated EBITDA of EUR k 128,020. This represents an increase of EUR k 13,665 over the previous year, due primarily to the higher net operating income from letting activities.

2.3.2 Financial position

Cash flow statement

Due primarily to the capital increases and issuance of a bond in 2017, the following cash flows caused the cash and cash equivalents to increase overall by the end of the year:

in EUR k	01/01/2017–31/12/2017	01/01/2016–31/12/2016	Change	Change in %
1. Net cash flow from operating activities	**46.052**	**88.044**	**– 41.992**	**–47.7**
2. Cash flow from investing activities	–128,637	–414,107	285,470	–68.9
3. Cash flow from financing activities	215,646	210,744	4,902	2.3
Net change in cash and cash equivalents	**133,061**	**–115,321**	**248,382**	**n/a**
Cash and cash equivalents at beginning of period	68,415	183,736	–115,321	–62.8
Cash and cash equivalents at end of period	**201,476**	**68,415**	**133,061**	**194.5**

The net cash flow from operating activities decreased by EUR k 41,992 compared to the previous year and was EUR k 46,052 in the 2017 financial year, due primarily to higher payments to creditors, especially in the context of refinancing, and transaction costs in connection with the takeover of WCM. The increase in rental income had the opposite effect.

The negative cash flow from investing activities of EUR k 128,637 essentially reflected the cash paid for the acquisition of properties and investments in the properties totalling EUR k 241,767. WCM was acquired by means of a share swap. The proceeds from the disposal of properties, which increased by EUR k 55,621 over the previous year to reach EUR k 87,597, had the opposite effect.

The cash flow from financing activities was driven by the issuance of a bond with a nominal value of EUR k 400,000 and the capital increases of January and November 2017 which generated gross proceeds of EUR k 262,109. While loans were taken out as part of the ongoing financing activities, refinancing measures made it possible to repay a number of loans prematurely. The payment of a dividend of EUR k 59,340 to the shareholders surpassed the dividend of EUR k 48,551 in the previous year.

Overall, due to the aforementioned cash flows in 2017, cash and cash equivalents increased by EUR k 133,061 to EUR k 201,476.

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 after more than one year have all been categorised as non-current.

in EUR k	31/12/2017	31/12/2016	Change	Change in %
Investment property/advance payments	3,400,784	2,215,321	1,185,463	53.5
Deferred tax assets	0	2,652	−2,652	−100.0
Other non-current assets	188,671	18,067	170,604	n/a
Financial assets	14,914	4,800	10,114	210.7
Cash and cash equivalents	201,476	68,415	133,061	194.5
Other current assets	29,903	35,508	−5,605	−15.8
Total assets	**3,835,748**	**2,344,763**	**1,490,985**	**63.6**
Equity	1,936,560	1,009,503	927,057	91.8
Non-current liabilities	1,556,459	1,009,406	547,053	54.2
Deferred tax liabilities	272,736	217,713	55,023	25.3
Current liabilities	69,993	108,141	−38,148	−35.3
Total equity and liabilities	**3,835,748**	**2,344,763**	**1,490,985**	**63.6**

At EUR k 3,400,784, the asset side is dominated by investment property as well as advance payments made towards them. Compared to the previous year, the proportion of investment property in the total assets decreased from 94% to 89%, due primarily to the goodwill resulting from the WCM transaction and higher cash and cash equivalents.

The development of investment property is the result of fair value adjustments (EUR k 218,610), acquisitions (EUR k 204,931), additions from the takeover of WCM (EUR k 799,948), the capitalisation of construction activities (EUR k 16,018) and reclassifications as assets held for sale (EUR k 71,025). The increase in other non-current assets compared to the previous year is due largely to the derivative goodwill from the WCM transaction.

Cash increased by EUR k 133,061 to EUR k 201,476 in the reporting period, due primarily to the issuance of the bond in November 2017 and the other capital measures in 2017.

Compared to the previous year, the equity of the Group has increased by EUR k 927,057 to EUR k 1,936,560. The increase in equity is due to the issuance of new shares as part of the takeover of WCM, the capital increases in January and November 2017 (which generated gross proceeds of EUR k 262,109) and the net income of EUR k 284,373, although the payment of a dividend of EUR k 59,340 had the opposite effect.

in EUR k	31/12/2017	31/12/2016	Change	Change in %
Equity	1,936,560	1,009,503	927,057	91.8
Total equity and liabilities	3,835,748	2,344,763	1,490,985	63.6
Equity ratio in %	**50.5**	**43.1**	**7.4 pp**	

Compared to the previous year, the equity ratio increased by 7.4 percentage points to 50.5%, due primarily to the increase in equity.

Overall, the liabilities of the TLG IMMOBILIEN Group have increased by EUR k 563,928 or 42%.

Non-current liabilities, including deferred taxes, increased by EUR k 602,076 in the 2017 financial year and represent 96% of liabilities. This is essentially due to the issuance of the bond with a nominal value of EUR k 400,000 and the consolidation of WCM. The loan repayments carried out as part of the refinancing measures had the opposite effect.

Current liabilities decreased by EUR k 38,148, largely as a result of the current liabilities due to financial institutions and the changes to the maturity structure of the liabilities due to financial institutions.

All liabilities due to financial institutions are secured by mortgages.

2.3.4 Financial performance indicators

FFO development

in EUR k	01/01/2017–31/12/2017	Previous calculation methods 01/01/2017–31/12/2017	01/01/2016–31/12/2016	Change	Change in %
Net income	**284,373**	**284,373**	**94,109**	**190,264**	**202.2**
Income taxes	22,955	22,955	34,507	−11,552	−33.5
EBT	307,327	307,327	128,616	178,711	138.9
Result from the disposal of investment property[1]	−2,681	−2,681	−6,103	3,422	−56.1
Result from the disposal of real estate inventories	120	120	−10	130	n/a
Result from the remeasurement of investment property	−218,609	−218,609	−39,860	−178,749	448.4
Result from the remeasurement of derivative financial instruments	−5,664	−5,664	−299	−5,365	n/a
Depreciation and amortisation	466	111	145	321	221.4
Attributable to non-controlling interests	−729	−729	0	−729	0
Other effects[2]	25,076	25,076	747	24,329	n/a
Income taxes relevant to FFO	−2,633	−3,005	−6,359	3,726	−58.6
FFO	**102,673**	**101,946**	**76,877**	**25,796**	**33.6**
Average number of shares outstanding in thousands[3]	79,681	79,681	67,432		
FFO per share in EUR	**1.29**	**1.28**	**1.14**	**0.15**	**13.2**

[1] Including the expenses from the adjustment of the proceeds of EUR k 278 from the disposal of Gewerbepark Grimma in 2016, held as an investment; recognised in other operating income in the consolidated statement of comprehensive income.
[2] The other effects include:
(a) personnel restructuring expenses (EUR k 375; previous year EUR k 477),
(b) transaction costs (EUR k 8,043; previous year EUR k 957),
(c) refinancing costs / repayment of loans (EUR k 19,198; previous year EUR k 0),
(d) income from the liquidation of the subsidiary Wirkbau (EUR k 82; previous year EUR k 0),
(e) income from operating costs (statement surplus) in the previous year (EUR k 2,458; previous year EUR k 0),
(f) the reversal of provisions for reclaimed subsidies (EUR k 0; previous year EUR k 404),
(g) the reversal of the provision for liabilities arising from purchase agreements (EUR k 0; previous year EUR k 283).
[3] Total number of shares as at 31 December 2016: 67.4 m, as at 31 December 2017: 102.0 m. The weighted average number of shares was 67.4 m in 2016 and 79.7 m in 2017.

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

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

In January 2018, the tax office made TLG IMMOBILIEN AG aware of significant trade and corporation tax loss carryforwards. As a result, TLG IMMOBILIEN considers the influence of the income tax burden negligible in the event of changes to FFO. For this reason, the FFO calculation for 2017 was adapted in order to simplify the inclusion of taxes on income in particular. Now, the income tax burden on FFO can be calculated using a fixed percentage rate derived from historical data as well as the average expected tax burden in a future five-year planning period. This rate is currently 2.5%. Besides simplifying the calculation and making it easier to understand, an important objective is to ensure that the figure remains comparable regardless of fluctuations caused by tax legislation or special items.

Furthermore, depreciation and amortisation as recognised in the statement of profit or loss will now be treated as entirely separate from net income in the FFO calculation, instead of the current practice of only balancing out depreciation of owner-occupied properties. In doing so, TLG IMMOBILIEN is following the practices in the market.

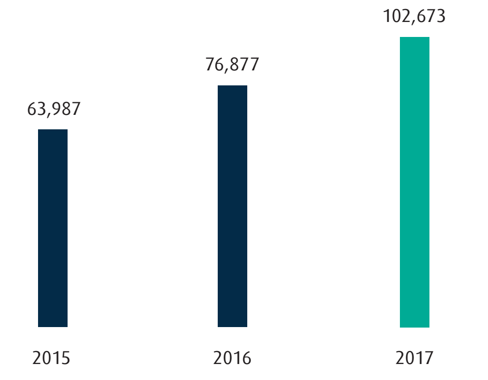
FFO was EUR k 102,673 in 2017 and was therefore 33.6% or EUR k 25,796 higher than the comparable value for 2016. FFO per share was EUR 1.29 and therefore significantly higher than in the same period in the previous year despite the increased number of shares resulting from the capital increases in 2017.

In the 2016 annual report, TLG IMMOBILIEN predicted that its FFO in 2017 would be between EUR 84 m and EUR 86 m. This forecast was last revised upwards to between EUR 90 m and EUR 92 m plus the proportionate gains of approximately EUR 5 m from the consolidation of WCM. As a result, the FFO forecast for 2017 was surpassed. This was essentially caused by the income tax loss carryforwards identified for TLG IMMOBILIEN AG and the unexpectedly high net operating income from letting activities. The latter was largely the result of the unexpectedly high proportion of operating costs that could be recharged to tenants.

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

Funds from operations (FFO)

in EUR k



FFO is an important indicator for the performance of the company going forward.

Net Loan to Value (Net LTV)

in EUR k	31/12/2017	31/12/2016	Change	Change in %
Investment property (IAS 40)	3,383,259	2,215,228	1,168,031	52.7
Advance payments on investment property (IAS 40)	17,525	93	17,432	n/a
Owner-occupied property (IAS 16)	6,868	6,109	759	12.4
Non-current assets classified as held for sale (IFRS 5)	9,698	19,174	−9,476	−49.4
Inventories (IAS 2)	762	1,103	−341	−30.9
Real estate assets	**3,418,112**	**2,241,708**	**1,176,404**	**52.5**
Interest-bearing liabilities	1,541,692	1,040,412	501,280	48.2
Cash and cash equivalents	201,476	68,415	133,061	194.5
Net debt	**1,340,216**	**971,997**	**368,219**	**37.9**
Net Loan to Value (Net LTV) in %	**39.2**	**43.4**	**−4.2 pp**	

As a ratio between net debt and real estate assets, the Net LTV is a key performance indicator for the company. It was 39.2% in the Group as at the reporting date. The long-term ceiling of 45% for the Net LTV announced most recently in the 2016 annual report was adhered to. The main reasons for the 4.2 percentage point decrease in spite of the successful growth were the capital increases in exchange for cash contributions and the highly positive result from the remeasurement of investment property.

EPRA Net Asset Value (EPRA NAV)

in EUR k	31/12/2017	31/12/2016	Change	Change in %
Equity of the shareholders of TLG IMMOBILIEN	1,897,636	1,009,503	888,133	88.0
Fair value adjustment of fixed assets (IAS 16)	8,807	5,327	3,480	65.3
Fair value adjustment of real estate inventories (IAS 2)	1,174	1,443	−269	−18.6
Fair value of derivative financial instruments	1,813	18,089	−16,276	−90.0
Deferred taxes[1]	367,983	218,933	149,050	68.1
Goodwill from deferred taxes	−48,901	−1,164	−47,737	n/a
EPRA Net Asset Value (EPRA NAV)	**2,228,512**	**1,252,131**	**976,381**	**78.0**
Number of shares in thousands	102,029	67,432		
EPRA NAV per share in EUR	**21.84**	**18.57**		
Adjustment of remaining goodwill	−115,823	0	−115,823	0
Adjusted EPRA Net Asset Value (EPRA NAV)	**2,112,689**	**1,252,131**	**860,558**	**68.7**
Number of shares in thousands	102,029	67,432		
Adjusted EPRA NAV per share in EUR	20.71	18.57		

[1] For reasons of simplicity, the net total of all deferred tax assets and liabilities was balanced out in the 2016 annual report. The calculation is now closely based on the specifications of the EPRA and only neutralises deferred tax assets and liabilities attributable to investment property and derivative financial instruments. The EPRA NAV for 2016 has also been adjusted in the same way.

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.

TLG IMMOBILIEN is also reporting an adjusted EPRA NAV for the first time in 2017. The difference is that all recognised goodwill is neutralised instead of just the goodwill attributable to deferred taxes.

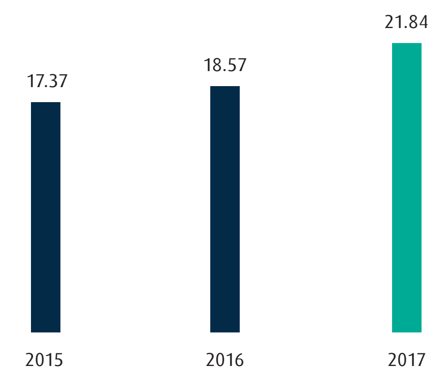
The EPRA NAV was EUR k 2,228,512 at the end of 2017, which equates to an EPRA NAV per share of EUR 21.84. The EPRA NAV has increased by EUR k 976,381 compared to 31 December 2016.

The increase was essentially due to the increase in equity (largely through the takeover of WCM AG), the capital increases in exchange for cash contributions carried out in 2017 and net income of EUR k 284,373. The net income was largely influenced by the successful course of business, the positive development of the value of the property portfolio and the recognition of income tax loss carryforwards by TLG IMMOBILIEN AG. The payment of a dividend of EUR k 59,340 to the shareholders had the opposite effect.

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

EPRA NAV per share

in EUR



2.3.5 Non-financial performance indicators

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

As at 31 December 2017, TLG IMMOBILIEN had 137 employees (previous year 111), not including trainees or inactive contracts. The increase in the number of staff is due primarily to the takeover of WCM and the recruitment of new employees. The average length of service at TLG IMMOBILIEN is 12.5 years.

As a modern, attractive company with a clear growth strategy, it is the stated objective of the company to qualitatively and quantitatively strengthen its team by recruiting specific personnel. In 2017, the company recruited 14 new members of staff.

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

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

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

In 2017, TLG IMMOBILIEN AG carried out an employee survey for the third time in a row. The outstanding level of participation once again signals the interest of the staff in continuing to help shape the development of TLG IMMOBILIEN AG. The majority of its employees see TLG IMMOBILIEN AG as an extremely attractive employer and are proud of their company. Almost all employees are aware of how they are contributing to the overall success of the company. Overall, the perceived attractiveness of TLG IMMOBILIEN has increased further compared to the previous year.

TLG IMMOBILIEN traditionally maintains good long-term relationships with its tenants. This is reflected in long-term rental agreements with stable rental income. Thanks to the offices of TLG IMMOBILIEN in Berlin, Frankfurt/Main, Dresden, Erfurt, Leipzig and Rostock, the company has outstanding regional networks. The staff in these branches have solid market experience and close relations with a number of private and institutional market participants. This allows TLG IMMOBILIEN to present itself as a reliable long-term partner to commercial tenants, investors and local authorities.

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

TLG IMMOBILIEN remains a member of the European Public Real Estate Association (EPRA) in order to support the promotion, development and representation of the European public real estate sector. Peter Finkbeiner is a member of the advisory board of this European association.

Additionally, TLG IMMOBILIEN has been a member of the German Corporate Governance Initiative of the real estate sector (Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V.) since 2016. Its objective is to boost professionalism with regard to transparency and the quality of corporate development and regulation.

3. REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

3.1. REPORT ON RISKS AND OPPORTUNITIES

3.1.1 Risk management system

TLG IMMOBILIEN is exposed to constantly changing general economic, technical, political, legal and societal conditions that could impede the achievement of its targets or the implementation of its 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.

There were no significant changes in the organisation and processes of the risk management system in 2017.

TLG IMMOBILIEN has been the owner of approximately 85.9% of the share capital and voting rights of WCM Beteiligungs- und Grundbesitz-AG since 6 October 2017. On 9 February 2018, a domination agreement between the two companies was registered in the commercial register of Frankfurt/Main, with TLG IMMOBILIEN AG as the controlling entity.

In this context, the estimated risks of WCM as at 31 December 2017 were compiled with the risks of TLG IMMOBILIEN AG in its risk management system in order to produce an overall assessment for the Group.

The risk management systems of WCM and TLG IMMOBILIEN are due to be fully integrated and unified in 2018.

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, 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 can and 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 based on the equity of the TLG IMMOBILIEN Group, on a quarterly basis and relative to the last quarterly or annual financial statements. Covenant agreements, which are a component of many loan agreements of TLG IMMOBILIEN, are taken into consideration. These agreements normally set out a minimum equity ratio which the company must maintain.

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

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

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

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

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

Risk control
The plausibility of changes to the estimated risks is examined by risk management. On an annual basis, the 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 2017 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. TLG IMMOBILIEN has no control over the risks of economic fluctuations or the risks of the capital and property markets. These are dependent on a range of factors such as interest rates, inflation, the general legal situation, rents and changes in demand in the transaction market. This can result in far-reaching effects on, 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, financial position and cash flows of the Group. The risks have been separated into property-specific and company-specific risks.

Property-specific risks

Transaction risk

Besides the efficient operational management and development of the property portfolio, active portfolio management entails the expansion of the portfolio through attractive acquisitions and the disposal of properties that no longer fit in with the company’s strategy. Disposals make a significant contribution to the optimisation of the company’s financial and portfolio structures. If planned property disposals do not come to pass, there is a risk of additional management or unplanned consequential costs. Additionally, a risk can arise if purchase agreement obligations are not fulfilled or prove disadvantageous in sales processes. Purchase agreements can give rise to a bad debt risk when, for example, procedural costs are incurred in connection with unwinding or interest losses occur due to the delayed receipt of capital.

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

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

Loss of rent

TLG IMMOBILIEN endeavours to minimise the risk of bad debt by carefully selecting its contractual partners. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used when necessary. Structured claims management is used to counter potential bad debt.

TLG IMMOBILIEN has a high-quality portfolio of properties and generates stable cash flows from rental income. Significant impairment of the cash flows, and thus also the financial position and financial performance of the company, can arise from a loss of payments from anchor tenants or insolvency on their part. Factoring in the risks of WCM, the bad debt risk from sales and leasing is considered to have a very high potential loss and a low probability of occurrence.

Vacancy risk
The vacancy risk is when a property cannot be leased or sub-leased at a reasonable price or at all. It is subject to economic fluctuations and market cycles which affect market rents and demand for space in particular. Such a development can have a negative effect on the letting situation and consequently on the planned development of the net operating income from letting activities as well as the funds from operations. TLG IMMOBILIEN minimises this risk by closely monitoring the market with extensive analyses of renting statistics (the preparation of market reports), continuously monitoring expiring rental agreements, regularly consulting real estate brokers, entering into long-term rental agreements and maintaining a presence on various media. The avoidance and reduction of risk also involves the timely identification and fulfilment of tenant requirements. In collaboration with tenants, areas of buildings are therefore converted regularly as part of new rental agreements or rental agreement extensions so as to meet the tenants' requirements. As the majority of the properties in the portfolio of TLG IMMOBILIEN are managed by employees of the Group, the company is in close contact with its tenants. Risk can also be reduced by the selective disposal of properties that no longer fit in with the strategy of TLG IMMOBILIEN. Factoring in the WCM risks causes the potential loss to increase from low to medium, yet the probability of occurrence remains low as at the reporting date.

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

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 cash flows 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 this risk was still negligible and its probability of occurrence had fallen from medium to negligible.

The risk from failure to maintain safety arises if the owner of the property fails to fulfil its duty to secure local sources of danger that might illegally damage the life, health, freedom or property of another person. The regular inspections also allow TLG IMMOBILIEN to fulfil its duty to maintain safety on the premises. The potential loss has increased from negligible to medium due to ongoing technical measures, yet the probability of occurrence has fallen from medium to negligible due to constant inspections, prompt service and repairs and the safety inspections.

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. Such investment activities can involve risks of overspending, delayed completion, structural defects and the loss of construction crew contractors. TLG IMMOBILIEN counters these risks by continuously checking the creditworthiness and reliability of construction companies and business partners and by hedging with guarantees. The implementation entails extensive project management, regular inspections on site, consistent follow-up management and strict deadline management.

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

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

Property measurement

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

The properties of the Group are regularly and systematically evaluated by independent external experts in order to identify problematic developments as quickly as possible. In order to reduce the measurement risk, TLG IMMOBILIEN also carries out tenant-oriented property management, performs necessary renovations and other technical measures for tenants and implements consistent portfolio optimisation in line with its strategy. In the 2017 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 – also including WCM – remains medium.

Company-specific risks

Investment risk

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

Through the takeover of WCM AG, TLG IMMOBILIEN generated goodwill, the long-term value of which is considered risky. The long-term value of the goodwill is essentially dependent on adherence to plans for future years, the general market and sector developments, interest rates and the markets. Annual impairment tests are carried out in order to verify the value of the goodwill. The potential loss of the risk is considered very high, although the probability of occurrence is considered low due to the currently positive market assessments.

Financing

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

Other financing risks might arise if the contractual terms of finance agreements (e.g. covenants), terms and conditions of capital market measures or ratings figures are not adhered to. The company covers the risk of a breached covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. No significant covenants were breached in 2017.

In light of WCM, the potential loss has been upgraded from negligible in the previous year to medium, whereas the probability of occurrence has been downgraded from high to medium.

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

Liquidity

The management of the Group pays special attention to liquidity in order to ensure that TLG IMMOBILIEN AG is always able to meet its 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 weekly 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 financial position and cash flows of the company. In the context of the cash received from capital market measures, the probability of occurrence of the risk is considered low, although its potential loss is medium as unexpected losses of liquidity in the context of WCM cannot be ruled out.

Tax risk

The tax risk is the danger that unforeseen matters or incorrect tax documents affect the tax burden and thus the results and liquidity of the company. This applies to turnover and income tax in particular and includes the potential impact of the risk of changes to tax laws. During past audits, the financial authorities have never detected any omitted matters which could increase the tax burden of the company. The risk of significant changes to tax laws is considered low. 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), was considered high as at the end of the financial year. The probability of occurrence has increased from negligible to medium.

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 financial position and cash flows of the company. These changes could negatively affect the image, the business activities and the financial position and cash flows of the Group. 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 negligible with a medium potential loss.

Personnel

Competent and motivated employees in an attractive working environment are essential to the success of TLG IMMOBILIEN. TLG IMMOBILIEN strengthens its attractiveness as an employer and counters any potential risk from insufficient personnel with measures such as performance and potential analyses to illustrate development perspectives, a performance-based remuneration system and additional benefits, as well as professional development opportunities. Another risk is that additional direct or indirect personnel expenses occur, in particular if employees do not meet expectations in terms of quality or quantity or are absent for extended periods due to illness. If skilled, committed and motivated employees and managers cannot be found, trained and retained, this can have a negative effect on the development of the company. In the context of the takeover of the staff of WCM, risks might arise due to insufficient qualitative or quantitative capacities or due to staff turnover, resulting in the potential loss having been upgraded from negligible to low and the probability of occurrence from negligible to 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.

Due to the takeover of WCM, there is a risk of a legal challenge in connection with the domination agreement entered into with WCM. Therefore, the potential loss and probability of occurrence increased from negligible in the previous year to medium.

Press and image

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

Data and IT risks, risks from force majeure

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

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

Following the takeover of WCM, the data quality risk has been upgraded to very high in terms of the potential loss due to the provision of some data by third-party service providers. As a result, the probability of occurrence has increased from negligible to medium.

Both aspects of the data protection risk are still considered negligible as an information security management system (ISMS) is in place. The preservation of confidentiality is a major component of this system. Other data protection measures such as secure passwords and a structured access privilege assignment and revocation process are in place as part of the ISMS and are applied consistently.

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

Internal and external offences

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

3.1.3 Internal control and risk management system for the accounting process

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

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

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

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

3.1.4 Risk management in relation to the use of financial instruments

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

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

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

3.1.5 General risk situation

The Management Board of TLG IMMOBILIEN considers the aggregate value at risk over the course of the 2017 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 portfolios of the individual companies or the overall Group, either individually or in their entirety.

3.1.6 Opportunity report

Thanks to its profound understanding of local markets, TLG IMMOBILIEN has a strong, highly diversified portfolio in the property market throughout Germany. As an active portfolio manager, the company has an excellent network in the property market. Additionally, TLG IMMOBILIEN has decades of expertise which present attractive opportunities for the company to grow and opportunities for it to dispose of properties in line with its portfolio optimisation strategy.

The takeover of WCM by TLG IMMOBILIEN will present opportunities in the accelerated expansion of the established business model of TLG IMMOBILIEN, the strengthening of its existing portfolio and the expansion of its regional coverage in Germany. Essentially, opportunities might continue to arise from the expected synergies as well as the size-related increases in the efficiency of a combined company. The proven purchasing power of both companies and the excellent access of TLG IMMOBILIEN to growth capital can enable the combined entity to continuously increase the size of its portfolio throughout Germany.

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

With regard to renting, TLG IMMOBILIEN ensures that demand from long-term, creditworthy tenants remains high by managing its property portfolio with a focus on its clients. This involves structural upgrades, for example by applying higher technological standards, which in turn can present new opportunities in terms of vacant space. Likewise, modernisation measures and renovations for tenants in the portfolio serve to increase client satisfaction and preserve the attractiveness of properties to the tenants. The long-term rental agreements in the portfolio of TLG IMMOBILIEN have an average remaining term of approx. 6.3 years.

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

3.2 FORECAST REPORT

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

3.2.1 General economic conditions and property markets

Overall economy

As it forecast in autumn, the German government expects the economy to grow by 1.9% in 2018. The protracted formation of a government ever since the Bundestag elections on 24 September 2017 has not yet had a negative impact. The strong development of the global economy has been providing support by causing German exports of goods and services to grow by 4% in 2018, according to the forecast of the government. The stability in the job market has ensured that buyer confidence remains high. In light of the economic developments and persistently low interest rates, the general conditions remain positive for the real estate sector. Jones Lang LaSalle (JLL) therefore expects the volume in the transaction market to equal that of the previous year.

Office property market

JLL forecasts strong growth in space in 2018. It expects around 1.3 million sqm to be built or comprehensively renovated. The projects will be centred in Berlin and Munich with around 230,000 sqm and 293,000 sqm respectively. This increase in the supply of new buildings coincides with strong user demand: Of the total volume of all seven metropolises, around 62% is currently pre-let, rented out or owner-occupied. Around 38% or 490,000 sqm of new building space is still available for businesses in need of it. Therefore, rents will continue to rise in most cities.

Retail property market

Consumer confidence, measured on the GfK consumer climate index, had increased again by the start of 2018. According to Savills, growing actual wages, low unemployment and low interest rates were the key drivers and will remain so in 2018. Some elements of bricks-and-mortar retail are still being influenced by growing online retail, although food retail is hardly affected at all. As before, demand for German retail properties remains high on the part of investors, even if they are being more selective. Savills expects the volume of the transaction market to be EUR 14.1 bn (an increase of 2%) in 2018; roughly at the same level as in the previous year.

Hotel property market

According to the experts at BNP Paribas Real Estate, the general economic and political conditions have created a stable environment for investments in hotel properties. However, the supply remains bottlenecked. The high demand is currently being met with development projects and forward deals in particular: Around one quarter of the volume is attributable to projects and hotels under construction. Additionally, many hotels have been completed recently. The experts at BNP Paribas Real Estate expect the EUR 4 bn mark to be reached again in 2018.

3.2.2 Expected business developments

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

Therefore, the company will continue to operatively manage its property portfolio with a view to generating value. Unless any major unforeseen circumstances occur, the company expects property-related expenses that must be borne by the owner to develop in relation to rental income as in 2017.

As an active portfolio manager, in 2018 TLG IMMOBILIEN plans to take advantage of the positive market environment and its strong position in its core markets to add new acquisitions that meet its quality and yield standards to its own property portfolio and dispose of non-strategic properties when the opportunities arise on the market.

The solid financing structure of the company and the historically low interest rates make it reasonable to expect TLG IMMOBILIEN to remain capable of obtaining debt at attractive rates in 2018. In 2018, there is little need to refinance; as a result, most debt obtained will be for the purposes of growth. TLG IMMOBILIEN intends to continue with its defensive approach to finance and expects a net LTV of up to 45% (previous year 39.2%).

Taking into consideration the currently contractually secured acquisitions, TLG IMMOBILIEN expects its funds from operations (FFO) in the 2018 financial year to be between EUR 125 m and EUR 128 m (EUR 102.7 m in 2017). This will make it possible to pay an attractive dividend to the shareholders. Potential acquisitions in 2018 could also increase the FFO for 2018.

TLG IMMOBILIEN expects the EPRA Net Asset Value, which is largely influenced by changes in the value of the property portfolio, to increase slightly by the end of the 2018 financial year. This will require the company to not incur any significant unforeseen expenses.

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

The declarations on corporate governance to be issued according to Sec. 289f and Sec. 315d HGB and the corporate governance report are available online at *https://ir.tlg.eu/corporategovernance* and *https://ir.wcm.de/en/#corporate-governance*. According 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. With regard to the maximum duration of the deadlines, the first deadline to be set may not extend beyond 30 June 2017.

In its meeting on 25 September 2015, the Supervisory Board decided the following:

The minimum proportion of women on the Supervisory Board of TLG IMMOBILIEN AG is 16.67% and the proportion of women may not fall below this target before 30 June 2017. The company adhered to this target.

In its meeting on 23 May 2017, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%. Due to the resignation of Ms Elisabeth Talma Stheeman with effect from 29 January 2018 and the judicial appointment of Mr Stefan E. Kowski as a new member of the Supervisory Board, this target is currently not being met by the Supervisory Board.

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

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

With regard to the minimum proportion of women on the first and second levels of management beneath the Management Board and according to Sec. 76 (4) AktG, the targets were set at 11.11% for the first level beneath the Management Board and 30% for the second level beneath the Management Board in the meeting held on 30 September 2015. The company met this target with regard to the first management level and only fell short slightly in the first six months of 2017 (10%). Otherwise, the targets were met.

In its meeting on 29 June 2017, the Management Board decided the following:

In line with Sec. 76 (4) AktG, the minimum proportion of women on the first management level below the Management Board is 10% and the minimum proportion of women on the second management level below the Management Board is 30%; neither may fall below this target before 30 June 2022.

At present, the company has no specific diversity concept in place in the sense of Sec. 289f (2) no. 6 HGB beyond the diversity-related targets for the composition of the Management Board and Supervisory Board described in the declaration on corporate governance. The Supervisory Board intends to prepare a profile of skills and expertise over the course of 2018 and examine an expansion of the diversity criteria at the same time.

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.

The remuneration system has not changed since 2014.

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), which was provided for the first time in 2015.

The Supervisory Board set out the initial levels of the LTI for 2017 in its meeting on 7 March 2017. It did the same for 2018 in its meeting on 21 March 2018.

in EUR k	Peter Finkbeiner	Niclas Karoff
Base remuneration	300	300
Short-term variable remuneration (STI)	200	200
Long-term variable remuneration (LTI)	250	250
Total remuneration	**750**	**750**

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 industrial accident insurance which pays out benefits if a member of the Management Board should become ill or die (in which case the benefits are paid to the member's surviving dependants), pension insurance and financial loss liability insurance (D&O insurance). 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)

The achievement rate, which is determined by comparing the progress of the member of the Management Board after one year, is the basis of the calculation of the short-term incentive.

[1] Due primarily to the non-cash benefit from private use of the company car and payments in connection with a dual household for business reasons.

The annual targets are defined by means of a joint agreement on objectives for the members of the Management Board; this agreement is to be proposed by the Supervisory Board for the current financial year by the time the financial statements for the financial year ended are prepared and agreed between the Supervisory Board, represented by its Chairperson, and the members of the Management Board.

The achievement rate for the short-term incentive must be at least 70% and is capped at 130%. The achievement rate increases on a straight-line basis between 70% and 130%. With a 100% achievement rate, the members of the Management Board each receive 100% of the bonus.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board.

The short-term incentive is payable in the salary statement issued for the month after the preparation of the financial statements.

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 and is determined by assessing the level of progress made towards the targets.

The key parameters for the long-term incentive are the performance of the EPRA NAV (per share and in euros) – as defined in the prospectus published for the IPO – of the company (NAV per share) from 1 January of the first of the four years to 31 December of the last of the four years (NAV development), as well as the performance of the company's shares in relation to the FTSE EPRA/NAREIT Europe Index (or a similar index) from 1 January of the first of the four years to 31 December of the last of the four years (relative strength index). The parameters are weighted against one another in a ratio of 50% (NAV development) and 50% (relative strength index).

The NAV development is defined in a corridor of between 100% (no increase in the NAV per share) and 250% (corresponds to a 150% increase in the NAV per share). With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the NAV development. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the NAV development will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The relative strength index is defined in a corridor of between 100% (i.e. the shares of the company performed the same as the index) and 250% (i.e. the shares of the company performed 1.5 times better than the index) relative to the index. With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the relative strength index. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the relative strength index will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The long-term incentive 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 Supervisory Board is entitled to award shares in the company in lieu of some or all of the cash payment. The company is entitled to introduce a share options programme – which has yet to be defined and which is of the same economic value to the member of the Management Board – to replace the long-term incentive.

Total remuneration for the Management Board in 2017 and 2016

In the 2017 and 2016 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received	Peter Finkbeiner		Niclas Karoff	
in EUR k	2017	2016	2017	2016
Fixed remuneration	300	300	300	300
Fringe benefits	87	86	30	27
Subtotal of fixed remuneration	**387**	**386**	**330**	**327**
Bonus	0	0	0	0
Short-term variable remuneration (STI)	260	260	260	260
Subtotal of variable remuneration	**260**	**260**	**260**	**260**
Total remuneration	**647**	**646**	**590**	**587**

Bonuses paid	Peter Finkbeiner				Niclas Karoff			
in EUR k	2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016
Fixed remuneration	300	300	300	300	300	300	300	300
Fringe benefits	87	87	87	86	30	30	30	27
Subtotal of fixed remuneration	**387**	**387**	**387**	**386**	**330**	**330**	**330**	**327**
Short-term variable remuneration (STI)	200	0	260	200	200	0	260	200
Long-term variable remuneration (LTI)	297	0	625	299	297	0	625	299
Subtotal of variable remuneration	**497**	**0**	**885**	**499**	**497**	**0**	**885**	**499**
Total remuneration	**884**	**387**	**1,272**	**885**	**827**	**330**	**1,215**	**826**

Total earnings from the company according to the German Commercial Code (HGB)	Peter Finkbeiner		Niclas Karoff	
in EUR k	2017	2016	2017	2016
Fixed remuneration	300	300	300	300
Fringe benefits	87	86	30	27
Subtotal of fixed remuneration	**387**	**386**	**330**	**327**
Short-term variable remuneration (STI)	260	260	260	260
Total remuneration	**647**	**646**	**590**	**587**

Current pensions were paid to two former managing directors in 2016 and 2017. The expenses totalled EUR 0.153 m in 2016 and EUR 0.153 m in 2017.

Payments in the event of premature termination of employment

Exit compensation

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 vale 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). If a change of control should result in the termination of a Management Board member's contract, that member shall receive a settlement equal to 150% of the exit compensation cap.

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.

Remuneration system for the Management Board from the 2018 financial year onwards
On 5 January 2018, the Supervisory Board resolved to extend the contracts of both members of the Management Board until the end of 2022.

The structure of the remuneration system is still based on performance and success, in which regard long-term orientation, suitability and sustainability are key criteria. The key remuneration components are described below.

As before, the remuneration of the members of the Management Board consists of a fixed remuneration component (basic remuneration), a remuneration component based on annual performance which serves as a short-term incentive (STI) and a variable remuneration component which serves as a long-term incentive (LTI).

From the 2018 financial year onwards, the basic annual remuneration is EUR k 400.

The STI is based on proportional target achievement in each financial year starting in the 2018 financial year. The Supervisory Board has defined the FFO per share as at the end of a financial year (the target FFO per share) and managerial targets set for each department at the start of the financial year as the decisive criteria for the STI. The STI is calculated based on the progress towards these targets as determined by the Supervisory Board. The annual STI may not exceed EUR k 375. No STI will be paid if the FFO per share is below 75% of the target FFO per share.

The members of the Management Board are entitled to an LTI based on the sustainable development of the company. The LTI from the 2018 financial year onwards will be paid in the form of virtual shares (performance shares) that will be converted to cash and paid out at the end of each LTI performance period with consideration for the targets.

The performance shares map the real development of the price of the shares of the company and serve as a variable in the calculation of the remuneration. The LTI performance period is a period of four years starting on the financial year in question. The number of performance shares to be awarded each financial year is based on the target LTI of EUR k 400 divided by the EPRA NAV per share in the financial statements of the previous year.

The key criteria of the LTI are the development of the EPRA NAV per share (target NAV per share) and the development of the returns of the shares of the company (TSR; total shareholder return) as at the end of the LTI performance period relative to the development of the TSR of the LTI reference index (TSR performance). The Supervisory Board defines the target NAV per share at the start of each financial year.

After approving the consolidated financial statements for the financial year in which an LTI performance period ends, the Supervisory Board will define the rate of progress as the basis of the calculation of the LTI. This may not exceed EUR k 800 per financial year (the LTI cap) yet is also limited by the fact that the total remuneration of a member of the Management Board for his work in each financial year may not exceed EUR k 1,500, including his basic remuneration and STI.

Supervisory Board remuneration system

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

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

in EUR k	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee
Michael Zahn	C		C	
Dr Michael Bütter	M		M	M
Frank D. Masuhr*				C
Dr Claus Nolting	M	M		
Elisabeth Talma Stheeman**		M		
Helmut Ullrich		C	M	M

* until 31 January 2018 ** until 29 January 2018 C = Chairperson M= Member

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 2017 financial year:

in EUR k	Supervisory Board	Presidential and nomination committee	Audit committee	Capital market and acquisitons committee	Project development committee*	VAT	Total
Michael Zahn	120,000.00	15,000.00	0.00	15,000.00	0.00	28,500.00	178,500.00
Dr Michael Bütter	60,000.00	7,500.00	0.00	7,500.00	1,250.00	14,487.50	90,737.50
Frank D. Masuhr**	36,666.67	0.00	0.00	0.00	2,500.00	7,441.67	46,608.34
Dr Claus Nolting	40,000.00	7,500.00	10,000.00	0.00	0.00	10,925.00	68,425.00
Elisabeth Talma Stheeman	40,000.00	0.00	10,000.00	0.00	0.00	0.00	50,000.00
Helmut Ullrich	40,000.00	0.00	20,000.00	7,500.00	1,250.00	13,062.50	81,812.50

** Proportional remuneration 2/12 ** Proportional Supervisory Board remuneration 11/12*

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 2017, the share capital was EUR 102,028,821.00, comprised of 102,028,821 no-par-value bearer shares with a value of EUR 1.00 per share. The share capital is fully paid-in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the general meeting. This does not include any treasury shares held by the company; these do not grant the company any rights.

5.2 MAJOR SHAREHOLDINGS

As reported on 5 December 2017, Julius Baer Group Ltd., Zurich, Switzerland, holds 5.72% of the voting rights of the company through its subsidiaries, Kairos International Sicav.

As reported on 30 November 2017, Prof. Gerhard Schmidt holds 15.13% of the voting rights of the company through his interests in the third-party companies DIC Real Estate Investments GmbH & Co. Kommanditgesellschaft auf Aktien and DIC OF RE 2 GmbH.

As reported on 13 October 2017, the Government of Singapore Investment Corporation, Singapore, holds 9.25% of the voting rights of the company through its subsidiary GIC Private Limited. On that date, the total number of voting rights was 94,611,266. The number of voting rights reported to the company by the Government of Singapore Investment Corporation as at 13 October 2017 would correspond to 8.57% of the voting rights as at 31 December 2017.

As reported on 24 May 2017, ADAR Capital Partners Ltd., Grand Cayman, Cayman Islands, holds 13.72% of the voting rights of the company through its subsidiary ADAR Macro Fund Ltd. On that date, the total number of voting rights was 74,175,558. The number of voting rights reported to the company by ADAR Capital Partners Ltd. as at 24 May 2017 would correspond to 10% of the voting rights as at 31 December 2017.

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.

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

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

5.4 AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE NEW SHARES

By resolution of the extraordinary general meeting on 22 November 2017 and with the consent of the Supervisory Board, the Management Board 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 under the circumstances set out for the Authorised Capital 2017/II, the subscription rights of the shareholders can be excluded.

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 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 the departing shareholders of WCM Beteiligungs- und Grundbesitz- Aktiengesellschaft with exit compensation consisting of shares in the company according to the provisions of the domination agreement concluded with WCM AG.

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

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

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

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

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

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

The contracts of the members of the Management Board also contain provisions in the event of a change of control. If a member’s contract is terminated prematurely following a change of control, that member is entitled to receive payments which meet the requirements of recommendation 4.2.3 of the German Corporate Governance Code by adhering to the exit compensation cap provided for by the Code.

6. RESPONSIBILITY STATEMENT ACCORDING TO 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, financial position and cash flows 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, 7 March 2018

Peter Finkbeiner	Niclas Karoff
Member of the Management Board	Member of the Management Board

7. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

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

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

- **Portfolio management**
  Thanks to a deep understanding of local markets and real estate, strategic services such as strategic portfolio management and monitoring, valuation and portfolio planning are rendered centrally.
- **Asset management**
  TLG IMMOBILIEN covers significant links in the real estate value chain internally. With the engineering and letting units, asset management is responsible for all measures on the level of the property that influence the value of a property.
- **Transaction management**
  With its many years of expertise, TLG IMMOBILIEN is exceptionally well connected in its core markets. This generates attractive opportunities for the company to grow and chances to sell properties for the best possible prices in line with its portfolio optimisation strategy.
- **Property management**
  Property management bears a decentralised responsibility for the commercial management of the properties, including tenant relations, and is in charge of external facility management.

The objective of the business activities is – in addition to the efficient management and development of the high-quality property portfolio – the continued expansion of the portfolio through profitable acquisitions of office, retail and hotel properties. Targeted acquisition of properties with potential for increased rents or moderate vacancy rates and the subsequent active asset management results in the potential to increase profitability via optimised letting and management. In addition to growth through acquisitions, the company remains focused on the disposal of non-strategic properties. Its objective is to ensure the high overall quality and profitability of its portfolio in the long term.

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

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

7.1 SEPARATE FINANCIAL STATEMENTS – FINANCIAL PERFORMANCE

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

	01/2017–12/2017		01/2016–12/2016		Change	
	EUR m	%	EUR m	%	EUR m	%
Revenue	249.0	97	186.2	99	62.8	34
Change in portfolio	8.0	3	2.3	1	5.7	248
Total	**257.0**	**100**	**188.5**	**100**	**68.5**	**36**
Operating expenses	176.5	69	135.2	72	41.3	31
Operating profit	**80.5**	**31**	**53.3**	**28**	**27.2**	**51**
Income from investments	1.0		3.3		−2.3	−70
Financial result	−47.2		−26.8		−20.4	76
Other operative effects	1.2		2.1		−0.9	−43
Operative result	**35.5**		**31.9**		**3.6**	**12**
Non-operative result	5.7		3.1		2.6	84
Earnings before taxes	**41.2**		**35.0**		**6.2**	**18**
Income taxes	−55.6		4.9		−60.5	−1,235
Annual profit	**96.8**		**30.1**		**66.7**	**222**

In the 2017 financial year, the company generated an annual profit of EUR 96.8 m, which greatly surpasses the forecast made in the 2016 annual report. The change in net income for the year compared to the previous year was largely due to the income from income taxes of EUR 55.6 m in connection with the audit for 2012 to 2015 that started in the reporting year and was completed by the time the financial statements were prepared, as well as the resulting tax loss carryforwards. Additionally, the increase in revenue more than balanced out the higher expenses in connection with capital increases and refinancing measures.

The increase in revenue was due essentially to higher revenue from operational management and higher proceeds from disposals. The former was essentially the result of acquisitions.

Operating expenses increased by EUR 41.3 m compared to the previous year, due primarily to higher depreciation and amortisation, significantly higher write-downs in connection with property disposals, higher maintenance measures and expenses in connection with the capital increases carried out in 2017. Expenses related to letting activities increased in light of the acquisitions made in 2016 and 2017.

Operating profits increased by EUR 27.2 m compared to the previous year, due primarily to higher revenue from letting activities as well as disposals of properties.

Financing costs increased by EUR 20.4 m in the 2017 financial year, due primarily to repayment fees as part of the refinancing measures.

Income taxes (EUR 55.6 m) comprise ongoing income taxes (EUR 1.7 m), tax revenue from prior periods (EUR 3.0 m) and the reversal of deferred tax liabilities in 2017 (EUR 54.2 m).

7.2 SEPARATE FINANCIAL STATEMENTS – FINANCIAL POSITION

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 k	31/12/2017	31/12/2016	Change
Cash flow from operating activities	48.2	72.2	–24.0
Cash flow from investing activities	–338.1	–399.6	61.5
Cash flow from financing activities	411.8	210.9	200.9
Change in cash and cash equivalents	121.9	–116.6	238.5
Cash and cash equivalents at the beginning of the financial year	63.8	180.4	–116.6
Cash and cash equivalents at the end of the financial year	**185.7**	**63.8**	**121.9**

The cash flow from operating activities was EUR 48.2 m in 2017, and therefore EUR 24.0 m lower than in the previous year. The primary cause was the repayment fees in connection with refinancing measures.

The decrease in the negative cash flow from investing activities of EUR 61.5 m to EUR 338.1 m essentially reflects the decreased scale of cash paid for investments in newly acquired and existing properties. The investments in properties totalled EUR 136.0 m. Furthermore, loans totalling EUR 240.6 m were provided to WCM and other affiliated companies. The shares in WCM were acquired by means of a share swap.

The proceeds from the disposal of properties increased by EUR 57.4 m due to a higher volume of disposals.

The cash flow from financing activities of EUR 411.8 m is due primarily to the new loans taken out in 2017 as well as the issued bond and the two capital increases in exchange for cash contributions. The payment of a dividend of EUR 59.3 m in the 2017 financial year had the opposite effect (previous year EUR 48.6 m), as did the repayment of loans in the amount of EUR 410.0 m.

Overall, due to the aforementioned items, cash and cash equivalents increased by EUR 121.9 m to EUR 185.7 m. Cash and cash equivalents consist entirely of liquid funds.

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:

	31/12/2017		31/12/2016		Change	
	EUR m	%	EUR m	%	EUR m	%
Fixed assets	2,449.2	91.4	1,721.6	94.6	727.6	42.3
Non-current receivables	0.2	0.0	0.2	0.0	0.0	0.0
Inventories	28.1	1.0	20.4	1.1	7.7	37.7
Current receivables	9.1	0.3	6.6	0.4	2.5	37.9
Cash and cash equivalents	185.7	6.9	63.8	3.5	121.9	191.1
Other assets	6.6	0.2	6.5	0.4	0.1	1.5
Total assets	**2,678.8**	**100.0**	**1,819.1**	**100.0**	**859.7**	**47.3**
Equity*	1,346.8	50.3	650.6	35.8	696.2	107.0
Non-current liabilities	1,246.7	46.5	1,040.4	57.2	206.3	19.8
Current liabilities	85.3	3.2	128.1	7.0	–42.8	–33.4
Total equity and liabilities	**2,678.8**	**100.0**	**1,819.1**	**100.0**	**859.7**	**47.3**

* Including the special item for investment subsidies and grants totalling EUR 11.2 m (previous year EUR 11.6 m)

The assets side is dominated by fixed assets. The carrying amount of the fixed assets increased by EUR 727.6 m to EUR 2,449.2 m.

In the 2017 financial year, a total of EUR 825.8 m was added to the fixed assets through the acquisition of properties, the acquisition of shares in WCM and other affiliates and loans to these companies, although this was offset by write-downs totalling EUR 51.5 m. Additionally, depreciation, amortisation and write-downs (EUR 48.6 m) took place.

The current receivables increased by EUR 2.5 m, due primarily to receivables from affiliated companies under profit transfer agreements.

Compared to the previous year, cash has increased by EUR 121.9 m. The reason for the change is described in the notes to the financial position in accordance with HGB.

With consideration for the special item for investment subsidies and grants, TLG IMMOBILIEN AG is financed by equity at 50.3% (previous year 35.8%) and by non-current liabilities at 46.5% (previous year 57.2%), with the remainder attributable to current liabilities.

Compared to 2016, non-current liabilities have increased by EUR 206.3 m due to the issuance of a bond and the settlement and repayment of liabilities due to financial institutions.

Furthermore, the non-current liabilities were influenced by the EUR 54.2 m decrease in deferred tax liabilities as, due to the recognition of trade and corporation tax loss carryforwards, there is a net total of deferred tax assets.

7.4 SEPARATE FINANCIAL STATEMENTS – RISKS AND OPPORTUNITIES

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

7.5 SEPARATE FINANCIAL STATEMENTS – FORECAST REPORT

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

Due to the completed acquisitions and planned disposals, the company expects its earnings before taxes in 2018 to be slightly higher than in 2017.

Berlin, 7 March 2018

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

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 2017, the balance sheet as at 31 December 2017 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 of the Group of TLG IMMOBILIEN AG for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the responsibility statement included in the section "Responsibility statement required by § 264 (2) Line 3 HGB, § 289 (1) Line 5 HGB, § 315 (1) Line 5 HGB" of the report on the position of the Company and the Group.

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

- the accompanying 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 2017 and of its financial performance for the fiscal year from 1 January to 31 December 2017 in compliance with German legally required accounting principles, and

- the accompanying report on the position of 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 responsibility statement included in the section "Responsibility statement required by § 264 (2) Line 3 HGB, § 289 (1) Line 5 HGB, § 315 (1) Line 5 HGB" of the report on the position of the Company and the Group.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the 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 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 2017. 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:

1. SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY

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

The subsequent measurement of investment property is of material significance to the Company's assets, liabilities and financial performance. Specifically, the procedure for determining the net realizable value as of the reporting date as a basis for measuring impairment losses or reversals of impairment losses on investment properties in accordance with the "IDW Accounting Principle: Valuation of Investment Property in the Statutory Balance Sheet (IDW AcP IFA 2)" is complex as it involves numerous valuation inputs requiring considerable judgments and assumptions by the Management Board. These are in particular assumptions about the future development of realizable rents, the future development of the vacancy rate, the discount and capitalization rates and future repairs and investments. These assumptions entail significant uncertainty.

In light of the large number of properties, the complexity of the valuation methods and the assumptions requiring the use of judgment by the executive directors, we consider the subsequent measurement of investment property to be a key audit matter.

Auditor's response

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

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

In light of the real estate-specific assumptions to be made for the measurement, we included internal real estate experts (MRICS – Professional Member of the Royal Institution of Chartered Surveyors) in the audit team.

For a sample, we obtained an understanding of and assessed the method used to value properties by reference to valuation methods customary in the industry. Together with our internal real estate experts, we then questioned the Company's external expert about the valuation model and the assumptions (such as realizable rents, vacancy rate, discount and capitalization rates and relevant repairs and investments). We also assessed the qualifications and objectivity of the external expert and the suitability of their work as audit evidence for the measurement of investment property.

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

In addition, we performed analytical procedures relating to the change in the market values of each property for a sample of properties, analyzing whether the development of the significant value drivers (e.g., annual basic rent, useable space, vacancy rate, discount and capitalization rate, gross multiplier) is consistent with the development of the market value of the respective property.

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

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

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

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

Reference to related disclosures

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

2. RECOGNITION OF DEFERRED TAX ASSETS FOR UNUSED LOSSES

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

The recognition of deferred tax assets is based on the Company's corporate planning and is thus highly dependent on the Management Board's estimation and is therefore subject to judgment. The corporate planning involves making estimates about the future income situation, the timing of the reversal of temporary differences and the usability of tax losses.

In light of the use of judgment and the inherent uncertainty regarding estimates about the future tax income situation, we consider the recognition of deferred tax assets for unused losses to be a key audit matter.

Auditor's response

Our procedures included an assessment of the tax carrying amounts and the resulting temporary differences between these and the carrying amounts in the statutory balance sheet. We obtained an understanding of the roll-forward of the prior-year balances to the reporting date, including the netting of deferred tax assets and deferred tax liabilities, by reference to the tax computation. Our procedures also includes an assessment of future changes in tax law. We also analyzed the amount of the tax loss and interest carryforwards by considering and assessing the results or insights from the tax audit concluded by the date of preparation and from tax assessment notices and other correspondence with the tax authorities. Furthermore, we assessed the adequacy of the assumptions used for the tax planning for the next five fiscal years by reference to the corporate planning for TLG IMMOBILIEN prepared by the Management Board.

We also assessed the information provided by the Company on deferred taxes in the notes to the financial statements.

Our audit procedures did not lead to any reservations relating to the recognition of deferred tax assets for unused losses.

Reference to related disclosures

We refer to the information provided by the Management Board on deferred taxes in the notes to the financial statements in the sections "Deferred tax liabilities" and "Expenses."

Other information

The executive directors are responsible for the other information.

The other information comprises the responsibility statement included in the section "Responsibility statement required by § 264 (2) Line 3 HGB, § 289 (1) Line 5 HGB, § 315 (1) Line 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.

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 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 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 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, 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 on 23 May 2017. We were engaged by the supervisory board on 8 September 2017. We have been the auditor of TLG IMMOBILIEN GMBH for the fiscal years 1999 to 2013 and the auditor of TLG IMMOBILIEN AG without interruption since fiscal year 2014.

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 to the Company or entities controlled by it the following services that are not disclosed in the annual financial statements or in the report on the position of the Company and the Group:

- Audit-related services in connection with the preparation of comfort letters for securities prospectuses for a cash capital increase, the issue of a bond, the conclusion of a domination agreement and a takeover bid.

- Tax consulting for two entities controlled by TLG IMMOBILIEN AG.

German Public Auditor responsible for the engagement

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

Berlin, 21 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Kreninger	Pilawa
Auditor	Auditor

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