ANNUAL REPORT 2016

VALUABLE GROWTH

KEY GROUP FIGURES ACCORDING TO IFRS

	Unit	2016	2015	Change in %
Results of operations				
Rental income	in EUR k	140,464	127,392	10.3
Net operating income from letting activities (NOI)	in EUR k	125,588	114,096	10.1
Disposal profits	in EUR k	6,391	8,743	–26.9
Net income	in EUR k	94,109	130,862	–28.1
Funds from operations (FFO)	in EUR k	76,877	63,987	20.1
FFO per share [1]	in EUR	1.14	1.03	10.7

	Unit	31/12/2016	31/12/2015	Change in %
Statement of financial position				
Investment property	in EUR k	2,215,228	1,739,474	27.4
Cash and cash equivalents	in EUR k	68,415	183,736	–62.8
Total assets	in EUR k	2,344,763	1,999,461	17.3
Equity	in EUR k	1,009,503	967,874	4.3
Equity ratio	in %	43.1	48.4	–5.3 pp
Liabilities to financial institutions	in EUR k	1,040,412	782,688	32.9
Net debt	in EUR k	971,997	598,952	62.3
Net LTV [2]	in %	43.4	33.6	9.8 pp
EPRA NAV	in EUR k	1,248,259	1,171,594	6.5
EPRA NAV per share [1]	in EUR	18.51	17.37	6.5

	Unit	31/12/2016	31/12/2015	Change in %
Key portfolio performance indicators				
Property value [3]	in EUR k	2,241,615	1,765,834	26.9
Real estate	Number	404	418	–14 units
Annualised in-place rent [4]	in EUR k	155,276	131,379	18.2
In-place rental yield	in %	6.9	7.4	–0.5 pp
EPRA Vacancy Rate	in %	3.8	3.7	0.1 pp
WALT	in years	6.1	6.5	–0.4 years
Average rent	EUR/sqm	9.67	9.23	4.8

[1] *Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.*
[2] *Calculation: Net debt divided by property value; for the composition, see page 69*
[3] *In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5*
[4] *The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.*

INVESTING IN GROWTH

TLG IMMOBILIEN AG IS A LEADING COMMERCIAL REAL ESTATE COMPANY IN GERMANY

EUR 76.9 m
Funds from operations

43.4 %
Net LTV

EUR 2.2 bn
Portfolio value

WHAT WE STAND FOR

- Market expertise
- Growth
- Profitability
- Transparency
- Financial solidity
- Sustainability

WHAT YOU CAN HOLD US TO

- Reliable expectation management
- A focus on value-oriented growth

WE CREATE VALUE FOR OUR SHAREHOLDERS

- A profitable company in the German capital market

In 2016, we were not only able to reach our targets but also surpass them.

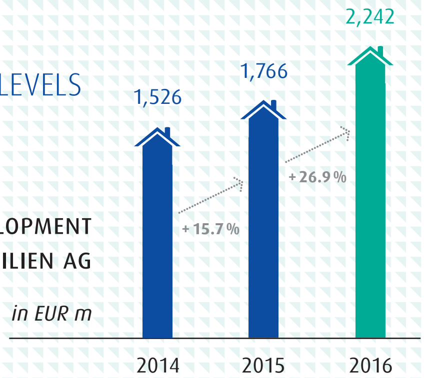
4.5 %
Dividend yield (based on Xetra closing price 2016)

PAGES 1–29

VALUABLE GROWTH

Funds
from operations
increased by
+20 %
in 2016.

» *We are very happy with our performance during the year.* « NICLAS KAROFF, MEMBER OF THE MANAGEMENT BOARD



The
weighted average
lease term of the
TLG IMMOBILIEN AG
portfolio is
6.1 years.

» *We have already improved our cost efficiency significantly. Yet we still see potential.* « PETER FINKBEINER, MEMBER OF THE MANAGEMENT BOARD

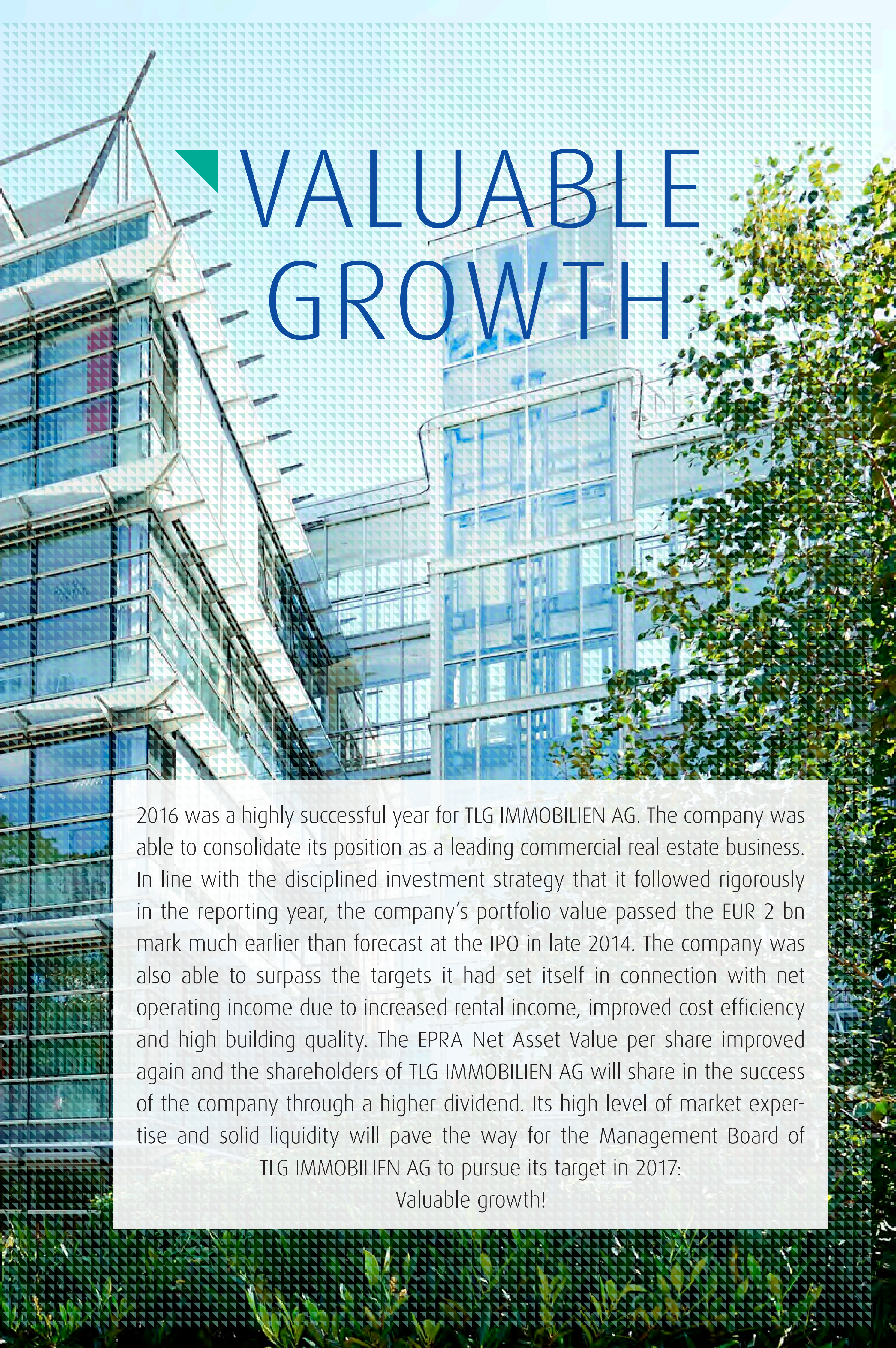
PAGES 30 – 55
TO OUR SHAREHOLDERS

PAGES 58 – 145
STRONG OPERATING PERFORMANCE

FFO
is expected to reach
EUR 84 – 86 m
at the end of the 2017 financial year.

TLG IMMOBILIEN AG acquired the office property Erlenhöfe in Berlin in January 2016.

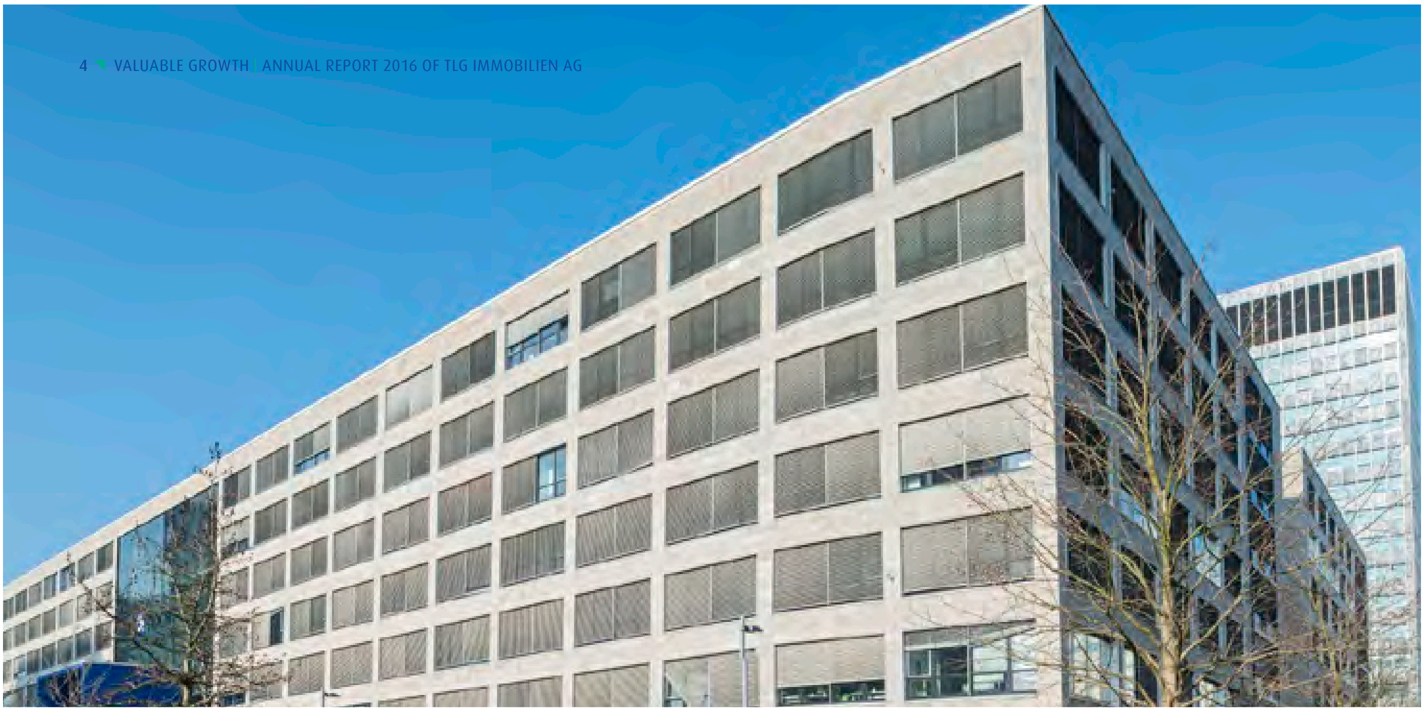
A stylised image of this building is also on the title page of the Annual Report for 2016.

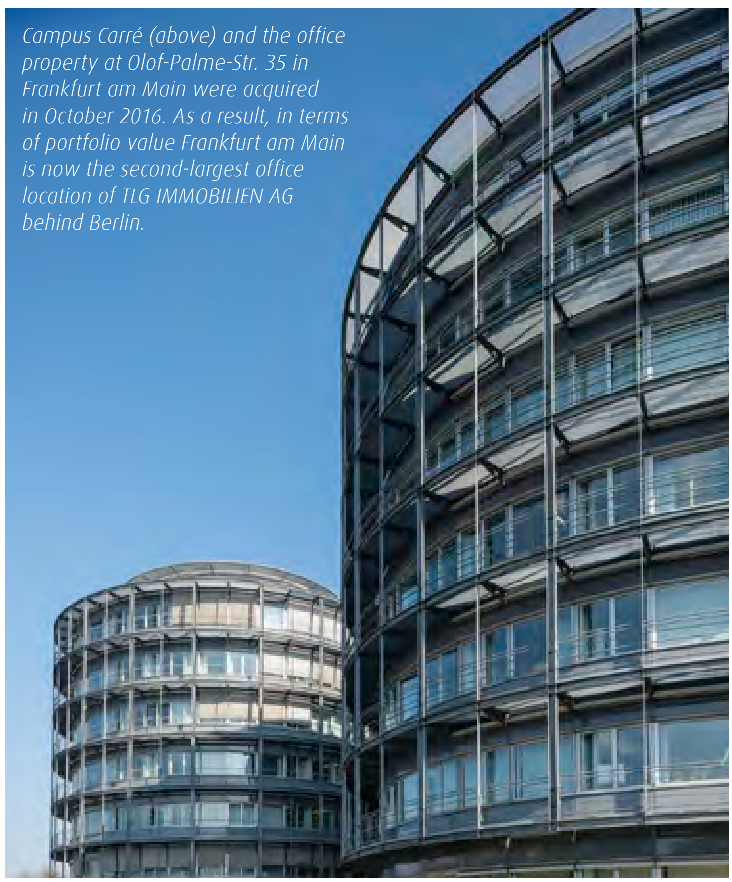


VALUABLE GROWTH

2016 was a highly successful year for TLG IMMOBILIEN AG. The company was able to consolidate its position as a leading commercial real estate business. In line with the disciplined investment strategy that it followed rigorously in the reporting year, the company's portfolio value passed the EUR 2 bn mark much earlier than forecast at the IPO in late 2014. The company was also able to surpass the targets it had set itself in connection with net operating income due to increased rental income, improved cost efficiency and high building quality. The EPRA Net Asset Value per share improved again and the shareholders of TLG IMMOBILIEN AG will share in the success of the company through a higher dividend. Its high level of market expertise and solid liquidity will pave the way for the Management Board of TLG IMMOBILIEN AG to pursue its target in 2017:

Valuable growth!





Campus Carré (above) and the office property at Olof-Palme-Str. 35 in Frankfurt am Main were acquired in October 2016. As a result, in terms of portfolio value Frankfurt am Main is now the second-largest office location of TLG IMMOBILIEN AG behind Berlin.

INTERVIEW

INVESTING IN GROWTH

» We see even more potential for generating income in 2017. «
Peter Finkbeiner und Niclas Karoff, members of the Management Board

In recent years, TLG IMMOBILIEN AG has become a leading commercial real estate company in Berlin and eastern Germany. Following its IPO in late 2014 and the significant growth in the following year, the Group passed a new milestone in 2016. This is reflected in its current portfolio value of EUR 2.2 bn, but more so in its strategic decision to make considerable investments in properties outside of eastern Germany. TLG IMMOBILIEN AG has been pursuing its growth strategy consistently since the IPO. The members of the Management Board Peter Finkbeiner and Niclas Karoff explain what to expect from the company in the future.

SOME TARGETS SURPASSED

- Portfolio value
  - > EUR 2 bn
  - Forecast published at the IPO in October 2014
  - Target for the end of 2017
  - Reached and surpassed significantly at the end of 2016
- Funds from operations (FFO)
  - Forecast for the year: EUR 72 to 74 bn on 30 March 2016
  - Revised upwards to EUR 74 to 76 bn on 10 August 2016
  - Actually achieved: EUR 76.9 m on 31 December 2016

Mr Finkbeiner, Mr Karoff, what were the key issues of the 2016 financial year for you? How happy are you with how the year went?

NICLAS KAROFF *The key issues in 2016 were clear: to continue with the strategy we have pursued since the IPO, to demonstrate more substantial growth – through successful acquisitions and rental agreements – and to improve our cost efficiency. In this context, we can be very happy with our performance during the year. Not only did the absolute size of our portfolio grow more quickly than expected, but so did our profitability.*

PETER FINKBEINER *I can only agree. We made progress with all of our key performance indicators, which is something we and our employees can be proud of. Our rental income increased by 10.3% and our EPRA Cost Ratio decreased to 24.1% including direct vacancy costs (23.0 % excluding direct vacancy costs.) Our FFO therefore grew by 20.1%. We also prospered significantly as our portfolio value increased to EUR 2.2 bn and our EPRA Net Asset Value per share increased to EUR 18.51.*

Things have also been happening on a strategic level. Is the regional expansion a further development or a deviation?

NICLAS KAROFF *It is definitely a further development. We are continuing to pursue our current growth strategy through the acquisitions made in Frankfurt am Main at the end of the year. Regional expansion – in this case into the heart of the economically strong Rhine-Main area – will open new doors for us. Yet this does not mean that we strive for growth at (almost) any price. Given the current market environment, we believe that a particularly disciplined approach to examining potential acquisitions is prudent. Nevertheless, our focus will remain on attractive properties in promising regions and our proven business model will continue to be based on direct proximity to our properties, tenants and markets.*

» We intend to continue with our proven business strategy. «

NICLAS KAROFF



Is the potential of your established eastern German markets exhausted?

NICLAS KAROFF *Not at all; their attractive potential continues to distinguish them. With a net investment volume of around EUR 241.7 m in 2016, our growth in eastern Germany was stronger than our growth in western and southern Germany. However, in future the far larger market outside of eastern Germany will provide us with additional opportunities to expand our current platform.*

What does that mean with regard to your three asset classes?

NICLAS KAROFF *Our diversification is one of our key strengths. Our greatest potential for growth certainly lies in our office and retail properties. The hotels on the other hand supply cash flows that are more calculable in the long term. We spread the risk for our shareholders and for ourselves.*

FFO
is expected to reach

EUR 84–86 m

at the end of the 2017 financial year, plus contributions to operating income from additional acquisitions.

Mr Finkbeiner, your company is in a solid financial position; what are your plans for the future in this context?

PETER FINKBEINER *The crucial factor for us is unhindered access to the capital markets. In recent years, we have built up a good reputation that will enable us to obtain fresh capital through a range of financing instruments when the opportunity for a lucrative investment arises, whether it be through debt or equity. Of course, our excellent cash flow generation also helps us to finance our operational business.*

What financial indicators do you use?

PETER FINKBEINER *One of the indicators we use is our leverage based on the Net Loan to Value Ratio (Net LTV). We strive for a figure that should not exceed 45% in the long term. We keep a very close eye on the markets. The interest rates with which we can refinance ourselves will surely not always be below the 2% threshold. Additionally, we control our business on the basis of funds from operations (FFO) and our EPRA Net Asset Value (NAV).*

» Our financial structure gives us the flexibility to make additional investments. «

PETER FINKBEINER

And what do your shareholders get out of it?

PETER FINKBEINER *It is very important to us that our shareholders participate in the success of our company. This is not only a question of the share price; we want to distribute a considerable portion of our FFO as a dividend every year. We will therefore propose an increase in the dividend for 2016 from EUR 0.72 to EUR 0.80 to the Annual General Meeting.*

How important are investor relations to you?

PETER FINKBEINER *Enormously. Ever since the IPO, we have joined the investor relations department at a number of roadshows, conferences and other market events and we answer to our investors and analysts. Our priorities are a dialogue with all shareholders and high transparency.*

What path will TLG IMMOBILIEN AG take in the future?

PETER FINKBEINER *We want to grow valuably. This means that, if the opportunities arise, we aim to transfer our leading position in commercial real estate in Berlin and eastern Germany to western Germany. We see solid potential for future expansion. Our investments will continue to focus on increasing our cash flows and income. We expect our FFO to increase to EUR 84–86 m in 2017 as well, plus contributions to operating income from additional acquisitions, and our shareholders will benefit from it once more.*

FURTHER LONG-TERM INCOME IMPROVEMENTS IN SIGHT

Funds from operations (FFO) in EUR m

** Forecast, excl. contributions to operating income from additional acquisitions in 2017*

» We aim to generate even more proven, valuable growth throughout Germany in future! «

THE MANAGEMENT BOARD OF TLG IMMOBILIEN AG

STRATEGY

PROFITABLE GROWTH AND PRESERVATION OF HIGH PORTFOLIO QUALITY

Its strategic focus on properties with excellent building quality in well-established locations will serve TLG IMMOBILIEN AG as a good basis for stable rental income, low vacancy rates and more potential value.

TLG IMMOBILIEN AG can look back on successful, value-boosting growth in recent years. Since 2014, the company has been able to increase the value of its portfolio by 47% to EUR 2.2 bn. In the 2016 financial year alone, the company signed purchase agreements for seven properties with a total net investment volume of around EUR 313 m. The company's unwavering focus on high building quality has ensured that properties can be integrated into the portfolio quickly and reliably on the basis of their secure contributions to operating income.

A FOCUS ON DISCIPLINED, LONG-TERM EXPANSION

The company's success in selecting suitable properties in which to invest is attributable to the high market expertise of its employees and its deliberate proximity to each regional market and its tenants through local offices. In this context, its growth is focused primarily on long-term increases in income and value. The high quality of the real estate portfolio ensured that at EUR 18.5 m, the CAPEX required to preserve its value were kept at a relatively low level in 2016.

PROFITABILITY AND RISK MINIMISATION AS KEY BENCHMARKS

The growth of the portfolio coincides with the continuous increase of operating income. The operating income of TLG IMMOBILIEN AG is best illustrated using the indicator funds from operations (FFO). FFO increased by 22.2% in 2015 and by 20.1% to EUR 76.9 m in 2016. This growth is due primarily to stable long-term rental income, an almost consistently low EPRA Vacancy Rate and the further reduction of the cost ratio.

» We see ourselves as a distributor of attractive dividends. «

PETER FINKBEINER, MEMBER OF THE MANAGEMENT BOARD OF TLG IMMOBILIEN AG

The EPRA Vacancy Rate was **3.8 %** at the end of 2016.

The portfolio of the company is diversified both regionally and in terms of its asset classes and is a significant guarantee of success. Besides the well-established regions in Berlin and eastern Germany, which recorded above-average growth in value in recent years, in the fourth quarter of 2016 TLG IMMOBILIEN AG opened up the option for additional growth in other German regions with the potential to increase in value. Following a significant initial investment in Frankfurt am Main, other investments are due to be made in the Rhine-Main area as well as in other attractive locations and regions in Germany in future. It goes without saying that this growth strategy also includes the original investment locations in eastern Germany. The company will remain true to its asset class model in future. Besides its clear focus on office and retail properties, it will continue to take a selective approach to expansion in the hotel asset class.

SUCCESSFUL REAL ESTATE MANAGEMENT THROUGH CONTINUOUS PORTFOLIO TURNOVER

TLG IMMOBILIEN AG remained focused on developing its portfolio in the 2016 financial year. In addition to its investments, it was able to sell a number of smaller properties in its portfolio and derive maximum value from them. Across all disposals and including a non-recurring item resulting from the subsequent payment of a purchase price, the margin over the actual carrying amount was 25.0%.

SHAREHOLDERS SHOULD PARTICIPATE IN THE SUCCESS OF THE COMPANY

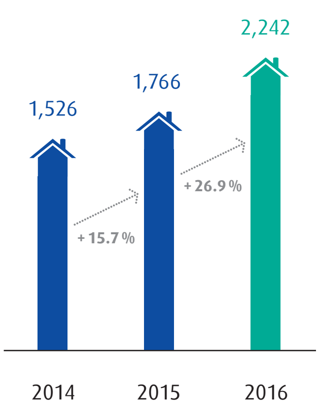
The cash flow generated by the company contributes to adding even more value to the statement of financial position and improving its financial structure and, by extension, to ensuring a good platform for future growth. TLG IMMOBILIEN AG also sees itself as a distributor of attractive dividends in that a substantial portion of the FFO it generates is distributed in the form of a dividend. This aims to generate reliable, above-average returns for the shareholders.

THE STRATEGIC FOCUS OF TLG IMMOBILIEN AG

- Focus on high-quality office, retail and hotel properties in well-established locations in German growth regions
- A diversified portfolio provides exceptional opportunities and limits operational risks
- A higher cash flow through stable rental income and low overall vacancy rates
- Additional income growth through improved cost efficiency
- A healthy statement of financial position and solid liquidity as a platform for future growth
- Shareholder-friendly dividend policies

PORTFOLIO DEVELOPMENT OF TLG IMMOBILIEN AG

in EUR m



HIGH-QUALITY PORTFOLIO OF THREE ASSET CLASSES

The high degree of diversity of office and retail properties and hotels spreads risk in the long term.

The diversification of the portfolio of TLG IMMOBILIEN AG into three asset classes – office, retail and hotel properties – is one key factor which distinguishes it from other major real estate companies. At the end of 2016, office properties represented 45% (previous year 35%) of the portfolio, retail properties represented 40% (previous year 49%) and hotels represented 12% (previous year 12%). From a regional perspective, 7% of the portfolio was attributable to Frankfurt am Main due to the company's entry into the western German market. The company is still most strongly represented in Berlin (40%) as well as in Dresden, Leipzig, Rostock and other eastern German locations to a lesser extent.

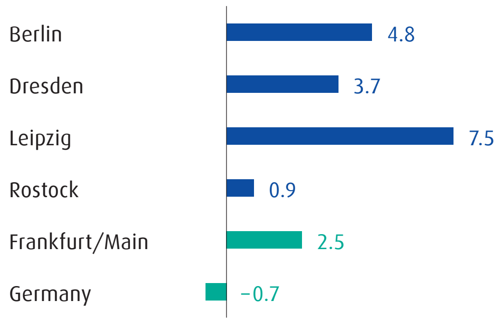
Each asset class has its own unique advantages that combine to contribute to the valuable growth of the company as a whole. For example, the office and retail properties stand out due to their higher average in-place rental yield, whereas with a WALT of almost 13 years the hotel properties provide exceptional long-term security for rental income.

TLG IMMOBILIEN AG IS PROFITING FROM POSITIVE CHANGES IN ECONOMIC PARAMETERS

Across all asset classes, TLG IMMOBILIEN AG profited from the consistently positive development of key economic parameters in Germany such as population growth and available income, and in turn purchasing power per capita, especially in the main locations in which it has invested.

SIGNIFICANT POPULATION GROWTH

Change from 2011–2015 (in %)

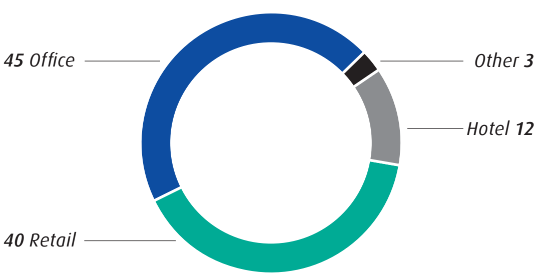


STEADY GROWTH IN PURCHASING POWER PER CAPITA

Development from 2007–2014 (in %)

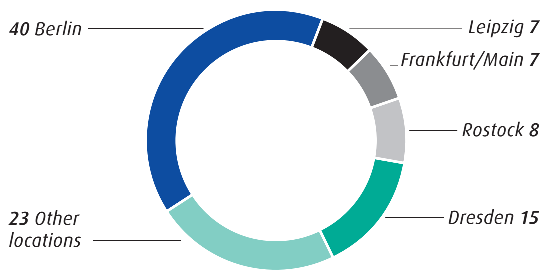
TOTAL PORTFOLIO BY ASSET CLASS

Property value in %



TOTAL PORTFOLIO BY LOCATION

Property value in %



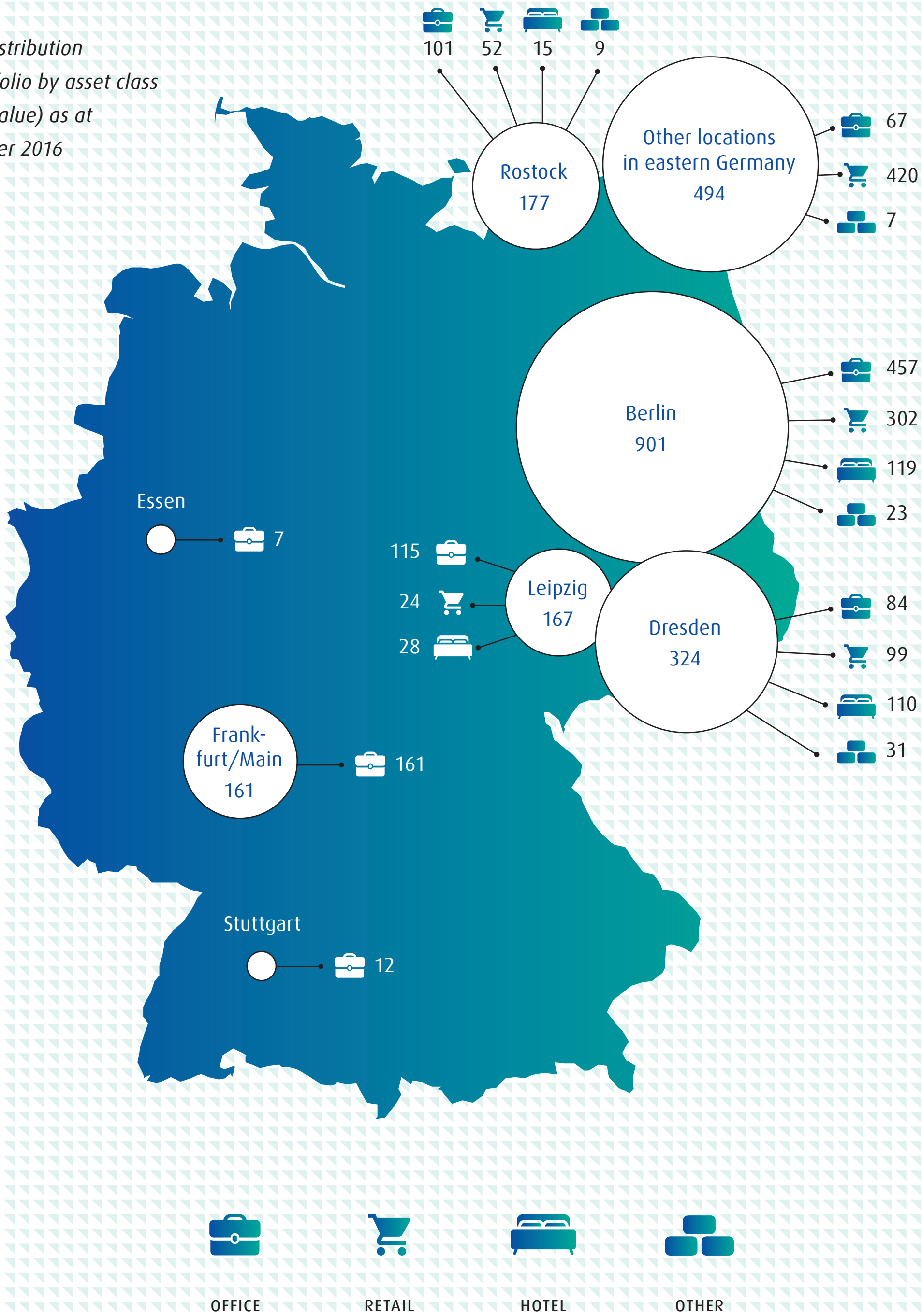
The highly diversified portfolio of TLG IMMOBILIEN AG

A FOCUS ON REGIONAL PRESENCE IN GROWTH REGIONS

PORTFOLIO

in EUR m

Regional distribution of the portfolio by asset class (property value) as at 31 December 2016



Key performance indicators of TLG IMMOBILIEN for office properties

	2016	2015
Property value	EUR 1,004.1 m	EUR 610.2 m
Units	60	52
Annualised in-place rent	EUR 65.0 m	EUR 42.8 m
In-place rental yield	6.5 %	7.1 %
EPRA Vacancy Rate	5.2 %	5.6 %
WALT	5.0 years	5.1 years

OstseeSparkasse, Am Vögenteich 23, Rostock

Forum am Brühl, Richard-Wagner-Strasse 1 – 3, Leipzig

Key performance indicators of TLG IMMOBILIEN AG for retail properties

	2016	2015
Property value	EUR 896.2 m	EUR 873.4 m
Units	278	278
Annualised in-place rent	EUR 69.3 m	EUR 68.4 m
In-place rental yield	7.7 %	7.8 %
EPRA Vacancy Rate	2.4 %	1.4 %
WALT	5.4 years	5.9 years

OFFICE PROPERTIES ARE PROFITING FROM SOLID ECONOMIC GROWTH

In recent years, office properties have profited from the positive economic developments in Germany. The number of office workers in the service sector has increased dramatically. Additionally, the property market in Berlin – traditionally of great importance to TLG IMMOBILIEN AG – has established itself as a leading German and European location for start-ups and well-known TMT (Technology, Media, Telecommunications) companies, and has therefore profited disproportionately. According to a Savills Office Market Report, the average office rents in the German capital increased by around 8% to 16 EUR/sqm in 2016. According to a study published in August 2016 by the experts at bulwiengesa, the demand for office space in Berlin is expected to increase by up to 1.6 m sqm by 2020. Despite the strong increase in demand, the returns from office properties in the other major cities in eastern Germany remain attractive. Vacancy rates have even decreased significantly at the company’s new location, Frankfurt am Main, whilst the average rents have increased steadily. Additionally, many experts believe that the city has the potential to grow in future if British financial institutions and service providers relocate a large number of employees to the German financial centre as a consequence of Brexit.

A FOCUS ON HIGH CUSTOMER FREQUENCY IS CRUCIAL FOR RETAIL PROPERTIES

So far, TLG IMMOBILIEN AG has focused exclusively on eastern Germany with regard to retail properties. Based on their property values, as at the end of the 2016 reporting year the majority of the properties were neighbourhood shopping centres (40.1%) and food retail properties (37.5%). DIY shops accounted for 11.2%, specialist retailers 5.1% and other properties made up the remaining 6.0%. Important criteria for the selection of properties are an outstanding micro-location with good customer frequency as well as the structural quality of the properties.

RETAIL PORTFOLIO – PROPERTY VALUE

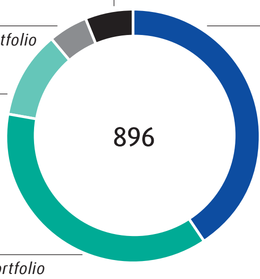
as at 31 December 2016 in EUR m

OTHER: 54
6.0 % share of the retail property portfolio

SPECIALIST RETAIL: 46
5.1 % share of the retail property portfolio

DIY SHOPS: 101
11.2 % share of the retail property portfolio

NEIGHBOURHOOD SHOPPING CENTRE*: 360
40.1 % share of the retail property portfolio



FOOD RETAIL: 336
37.5 % share of the retail property portfolio

**incl. specialist retail centres, residential and commercial buildings*

Marktplatz Friedrichshagen, Bölschestrasse 32, Berlin

Key performance indicators of TLG IMMOBILIEN AG for hotel properties

	2016	2015
Property value	EUR 272.0 m	EUR 207.6 m
Units	7	5
Annualised in-place rent	EUR 16.1 m	EUR 12.7 m
In-place rental yield	5.8 %	5.9 %
EPRA Vacancy Rate	2.4 %	1.0 %
WALT	13.1 years	15.2 years

Motel One, Schröderplatz 25, Rostock

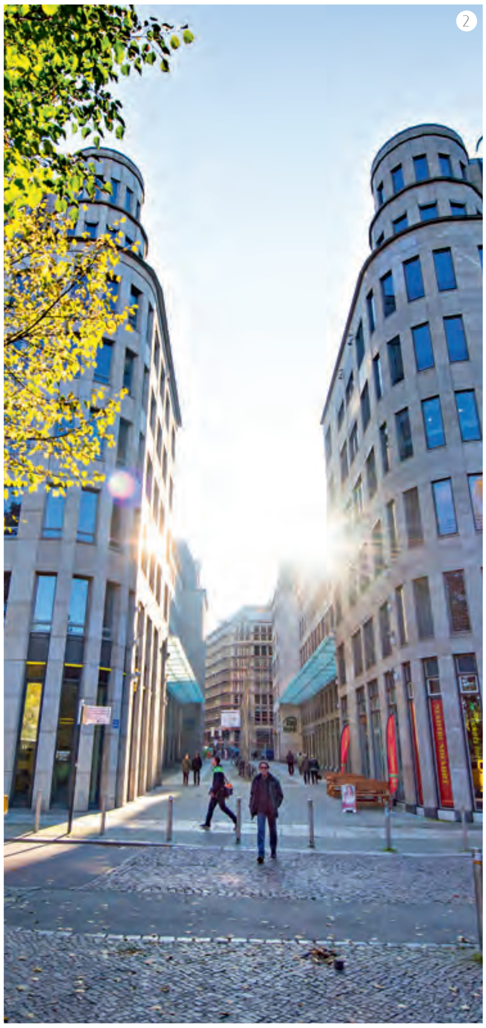
The weighted average lease term of the hotel properties of TLG IMMOBILIEN AG is 13.1 years

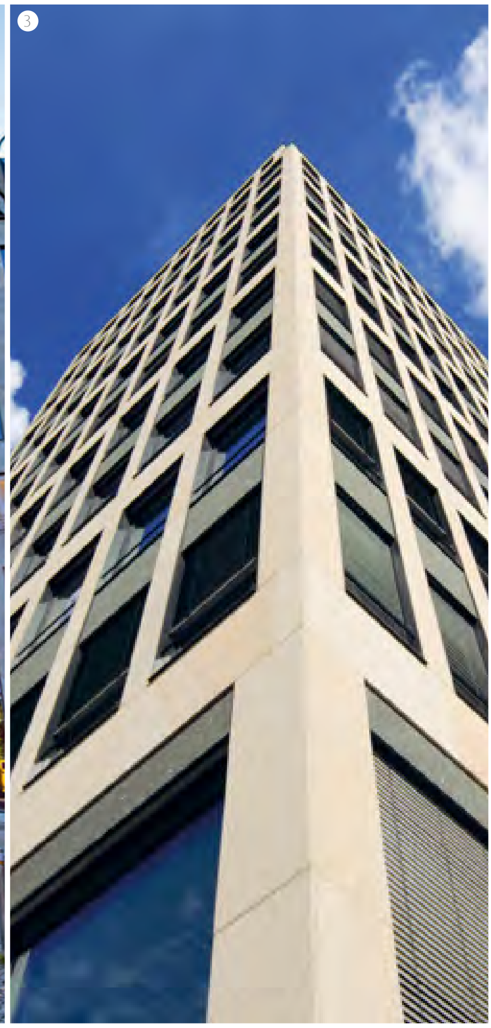
SECURE LONG-TERM CASH FLOWS SPEAK FOR THE VALUE OF HOTEL PROPERTIES

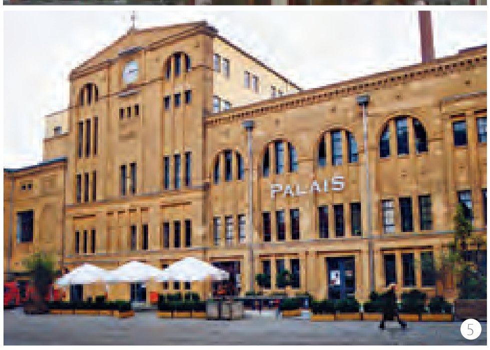
The seven hotels of TLG IMMOBILIEN AG are situated in the cities of Berlin, Dresden, Leipzig and Rostock. They are all distinguished by an excellent inner-city location and are therefore situated at locations popular amongst tourists and people travelling on business in equal measure. In the most significant eastern German regional centres, the number of overnight stays has increased by more than one-fifth over five years. Most recently with around 30 m overnight stays, Berlin too has been experiencing record numbers on a regular basis in recent years. As an expression of the high quality of the individual locations and buildings, all of the hotel partners of TLG IMMOBILIEN AG have tied themselves to the hotel properties on the basis of long-term rental agreements.

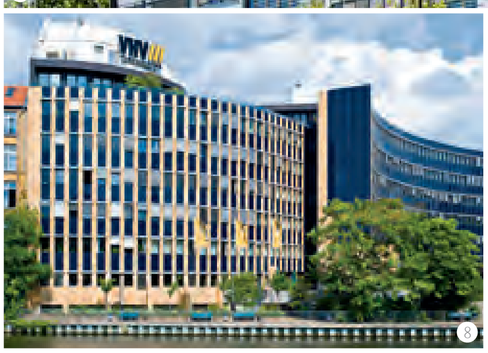
ACTIVE PORTFOLIO MANAGEMENT

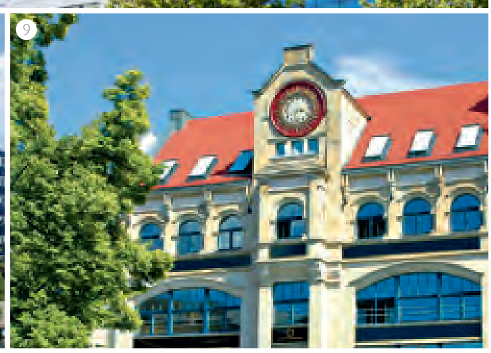
In contrast, the disposal of non-strategic properties (in the asset class "Other") is of decreasing importance to the company. These properties represented just 3.1% of the entire portfolio at the end of 2016. Instead, from now on the company will focus more on the disposal of office and retail properties that no longer fit the portfolio as well as growth through acquisitions. As an active portfolio manager, it aims to safeguard the high overall quality and profitability of its portfolio in the long term.

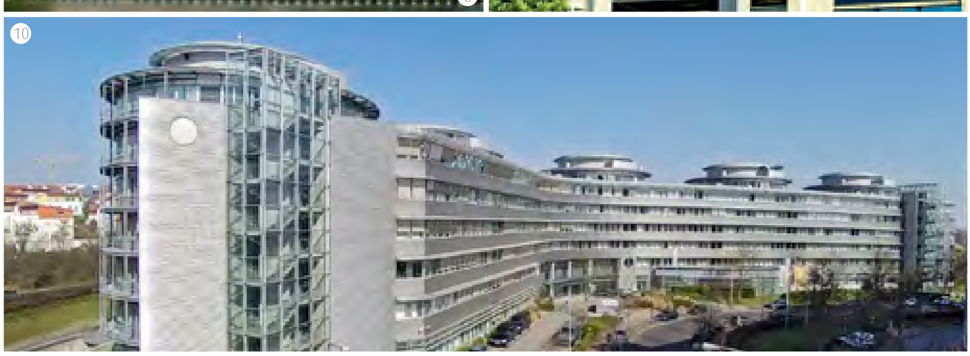










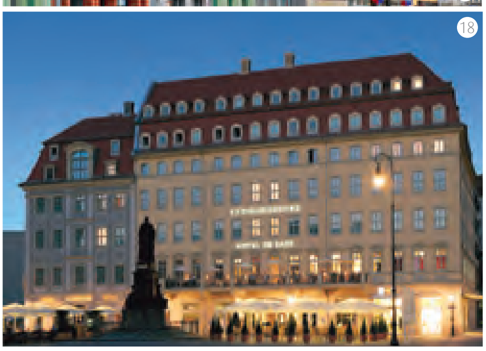


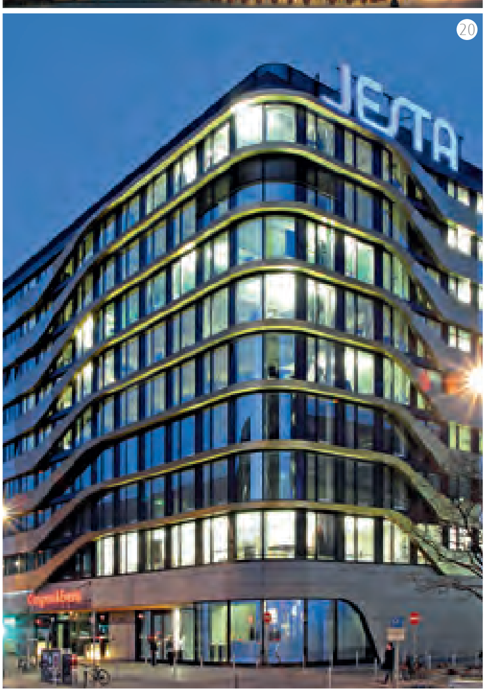
1. Office building, Am Schießhaus, Dresden 2. Forum am Brühl, Richard-Wagner-Strasse, Leipzig 3. Spreestern, Englische Strasse, Berlin 4. Office and commercial building, Münzstrasse, Berlin 5. KulturBrauerei, Schönhauserallee, Berlin 6. Technisches Rathaus, Prager Strasse, Leipzig 7. Office building, Am Vögenteich, Rostock 8. Spreétage, Kaiserin-Augusta-Allee, Berlin 9. Haus zur Berolina, Hausvogteiplatz, Berlin 10. Office building, Olof-Palme-Strasse, Frankfurt am Main

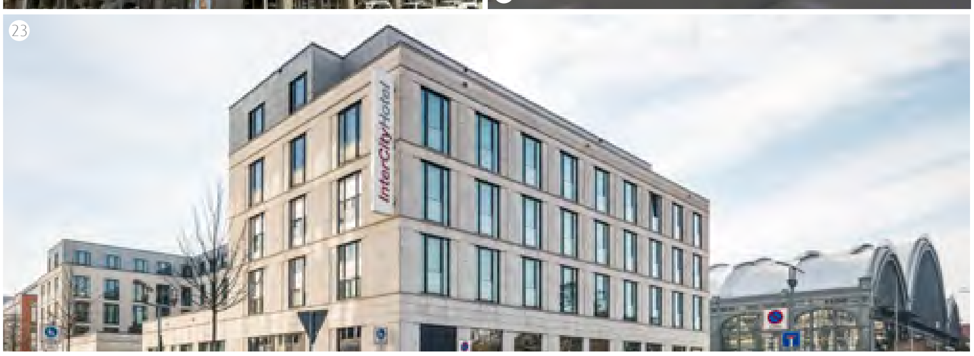
PORTFOLIO OF TLG IMMOBILIEN AG – AN OVERVIEW

For more information about the largest office, retail and hotel properties, visit the company's new website:

www.tlg.eu > Portfolio > Properties







11. Marktplatz Friedrichshagen, Bölschestrasse, Berlin 12. Burgwall neighbourhood shopping centre, Lübsche Strasse, Wismar 13. Neighbourhood shopping centre, Merseburger Strasse, Halle 14. Bahnhofs-Passage Bernau, Börnicker Chaussee, Bernau near Berlin 15. Commercial property, Prager Strasse, Dresden 16. Quartier17, Ossenreyerstrasse, Stralsund 17. Südstadt Center, Majakowskistrasse, Rostock

18. Hotel de Saxe, Neumarkt, Dresden 19. Motel One, Postplatz, Dresden 20. Die Welle, Karl-Liebknecht-Strasse, Berlin 21. Marriot Hotel, Richard-Wagner-Strasse, Leipzig 22. Novum Winters Hotel, Zimmerstrasse, Berlin 23. InterCityHotel, Wiener Platz, Dresden

A SOLID FINANCIAL STRUCTURE IS A HEALTHY PLATFORM FOR FUTURE GROWTH

With its open access to the markets, TLG IMMOBILIEN AG is able to utilise a range of different options to finance any opportunities for growth that arise.

Over the last few years and through its IPO in late 2014 in particular, TLG IMMOBILIEN AG has built up a good reputation in the financial markets. This provides a high degree of flexibility in the realisation of new investments at favourable rates. As a rule, the company strives to keep to a maximum limit of 45% for its long-term Net LTV. The company is supported by its excellent cash flow generation and diversified financial instruments in terms of both debt and equity.

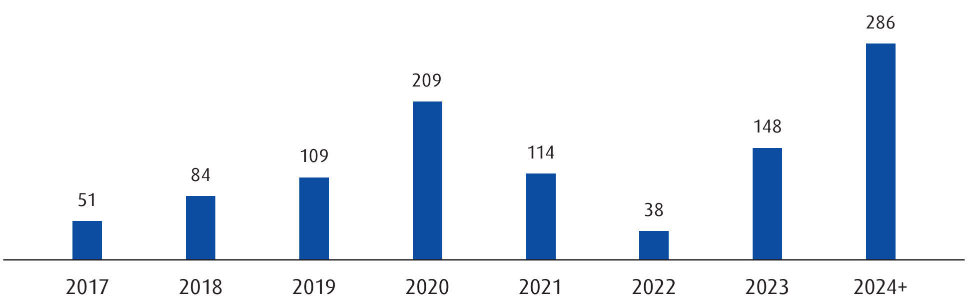
The Net LTV of the company was 43.4% (previous year 33.6%) and its gross debts totalled EUR 1,040.4 m (previous year EUR 782.7 m) at the end of 2016. The average costs of debt decreased from 2.79% to 2.46% within one year. At the end of 2016, the company's loans had an average remaining term of 5.3 years and some liabilities will not mature until 2026. For over 99% of the liabilities of the company, the interest rate is fixed for the term of the liability by means of fixed-rate agreements or interest rate hedging instruments. The costs are therefore easily calculable and are not affected by future changes in interest rates.

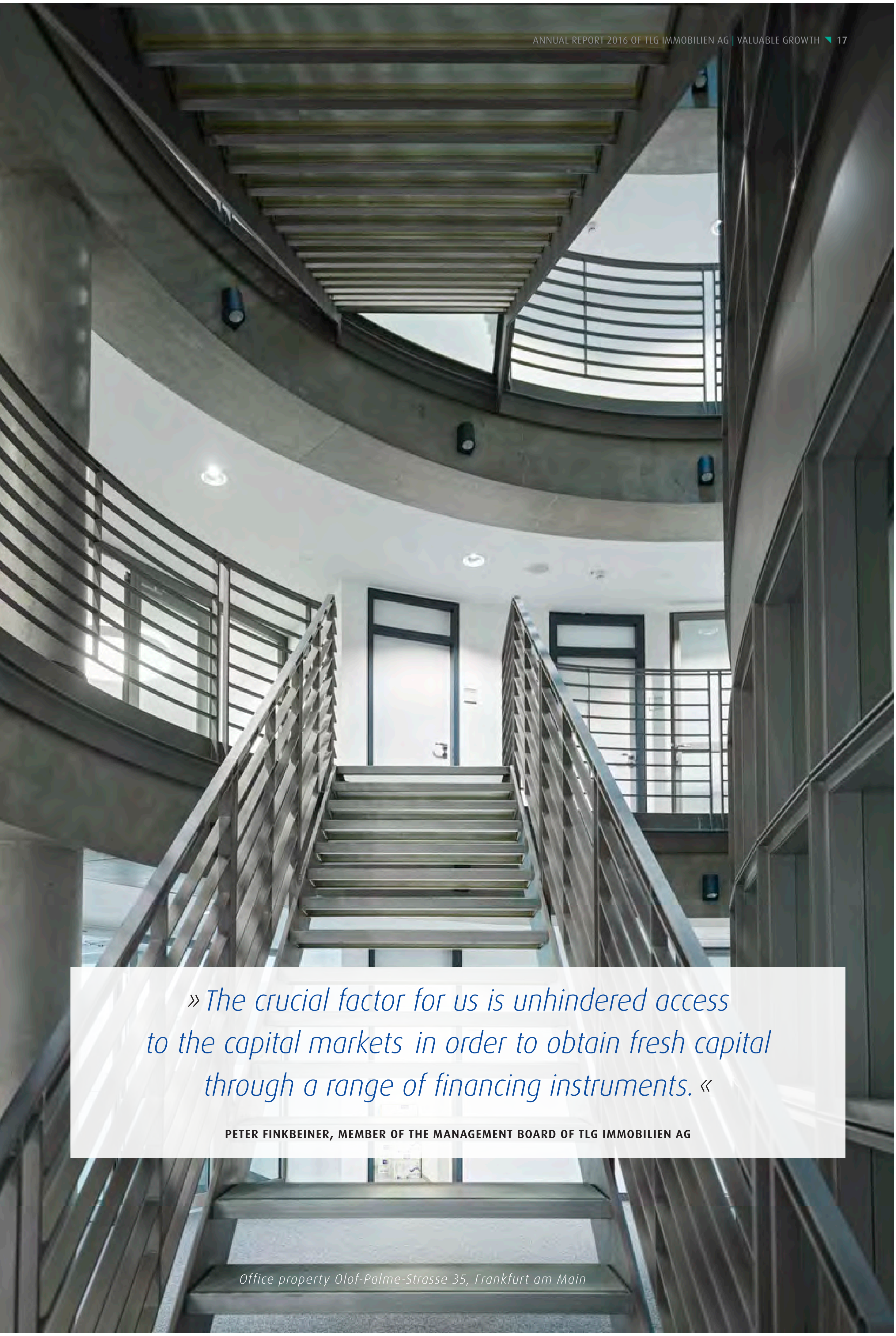
HIGH TRANSPARENCY CREATES TRUST

Credibility and trust are prerequisites for successful strategic and operational development. They affect relations with the customers, tenants, partners and employees of TLG IMMOBILIEN AG in the same way as its shareholders. The key elements are a fair dialogue with everyone involved and maximum transparency in reporting quality. In recognition of its work, TLG IMMOBILIEN AG was awarded the EPRA BPR Gold Award once again for the high quality of its reporting in last year's Annual Report. Maintaining or even raising this high level is an important incentive for the future!

MATURITY PROFILE AS AT 31 DECEMBER 2016

in EUR m

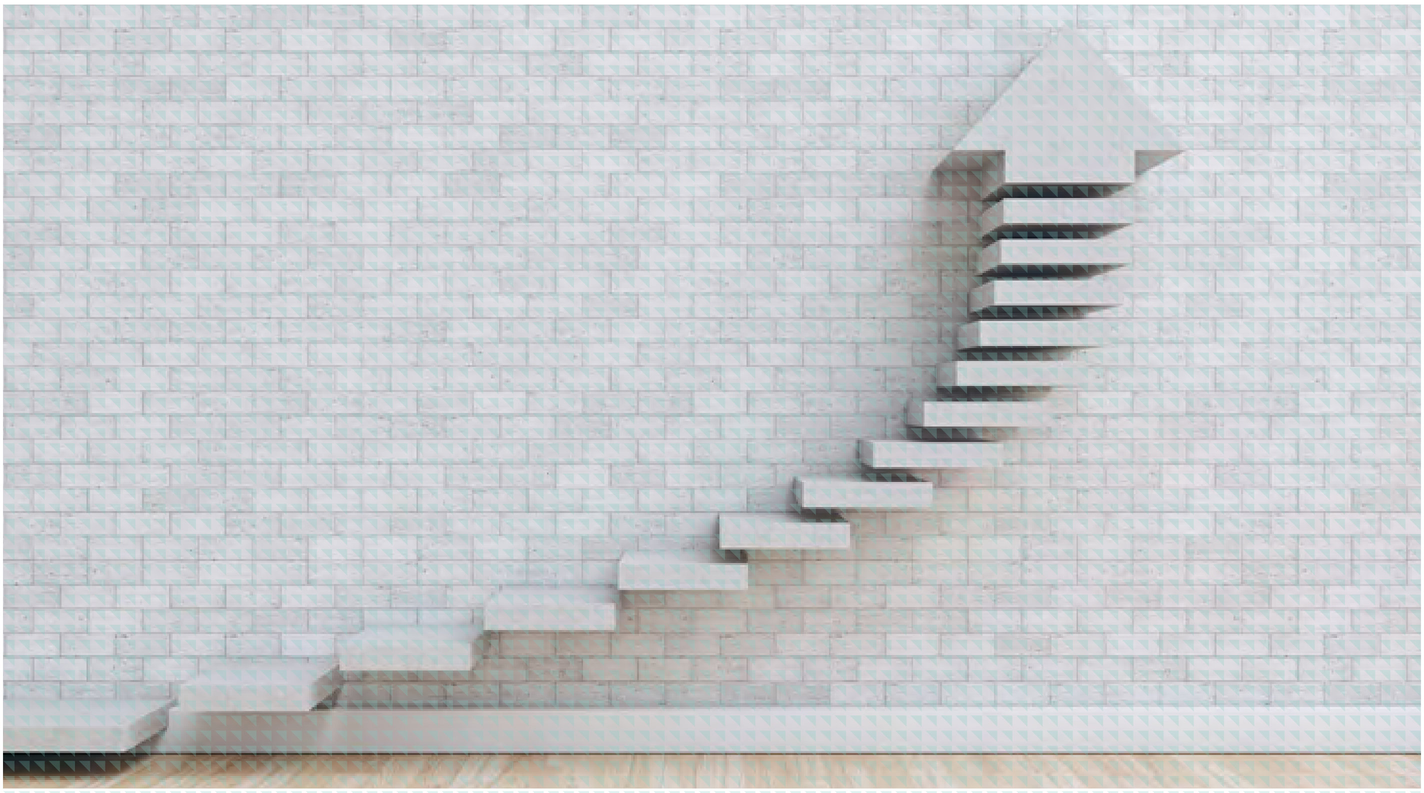




» The crucial factor for us is unhindered access to the capital markets in order to obtain fresh capital through a range of financing instruments. «

PETER FINKBEINER, MEMBER OF THE MANAGEMENT BOARD OF TLG IMMOBILIEN AG

Office property Olof-Palme-Strasse 35, Frankfurt am Main



GROWTH

QUANTIFIABLE SUCCESS ON ALL LEVELS

The activities of the company focus on generating sustainable, profitable growth and increasing the value of the company for all of its stakeholders. The improvement of key performance indicators documented in the 2016 reporting year attests to how successful TLG IMMOBILIEN AG has been.

One key performance indicator used by the company is the improvement of its funds from operations (FFO). FFO is determined by rental income in particular as well as the costs of finance, personnel and other expenses. In 2016, FFO increased by 20.1% to EUR 76.9 m. Another important indicator of the growth of the company is the value of the properties in its portfolio. The portfolio value is affected by the acquisition and disposal of properties as well as by changes in the value of existing properties resulting from modernisation measures or general market developments. In the 2016 financial year, TLG IMMOBILIEN AG increased the value of its portfolio to EUR 2.2 bn, which corresponds to growth of 26.9%.

PORTFOLIO GROWS BY EUR 476 M IN 2016

In the 2016 financial year, TLG IMMOBILIEN AG added 16 properties worth EUR 436.9 m to its portfolio. The company acquired high-quality properties with a total lettable area of 255,111 sqm in all three asset classes. In this regard, the combined annualised in-place rent of the acquisitions of EUR 25.9 m will represent a key foundation for continued positive income growth in the coming years.

At EUR 359.4 m, the focus of the expansion lay on the office asset class. The largest investment to date was made in mid-October as part of the acquisition of two office properties in Frankfurt am Main for a purchase price of EUR 160 m.

Important criteria in property acquisition

Office properties	Retail properties	Hotel properties
Well-established office location with potential for growth	Excellent micro-locations with good future prospects	Top inner-city locations in major cities
Individual property quality ("best in class")	Attractive retail statistics (e.g. purchasing power and centrality)	Long-term rental or lease agreements
Low-risk tenant structure	Appropriate property size and structure – ideally with room for expansion	Well-established operator with high industrial expertise

Indicators of successful value development, 2016

Development in entire portfolio (all as at 31/12)	Unit	2016	2015	Change
Property value [1]	EUR m	2,241.6	1,765.8	26.9
Annualised in-place rent [2]	EUR m	155.3	131.4	18.2
Average rent	EUR/sqm/month	9.67	9.23	4.8
In-place rental yield	%	6.9	7.4	−0.5 pp
EPRA Vacancy Rate	%	3.8	3.7	0.1 pp
WALT	years	6.1	6.5	−0.4 years
Personnel costs / portfolio value	%	0.5	0.6	−0.1 pp
Funds from operations (FFO)	EUR m	76.9	64.0	20.1
EPRA NAV per share [3]	EUR	18.51	17.37	6.5
Share price	EUR	17.90	17.40	2.9
Dividend [4]	EUR	0.80	0.72	11.1

[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.
[3] Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.
[4] 2016: proposal to the 2017 Annual General Meeting

VALUABLE GROWTH THROUGH:

- Portfolio optimisation
- Acquisition of strategic properties
  - Implementation of value-optimising measures on all stages of the internal value chain
  - Disposal of portfolio properties that do not meet strategic requirements
- Income growth
  - Higher rental income
  - Improved cost efficiency
  - Optimised financing costs
  - Reinvestment of revenue from transactions

The WALT of the entire portfolio is a solid **6.1** years

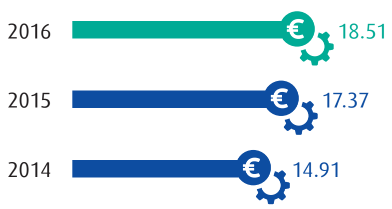
The dividend for 2016 is due to increase to EUR **0.80**

TENANT CREDITWORTHINESS AS A KEY CRITERION

When selecting a property to acquire, the company always considers the creditworthiness of the existing tenants so as to identify and minimise potential future risks at an early stage.

SUSTAINABLE INCREASE IN VALUE

EPRA Net Asset Value per share in EUR



» The rest of the property market in Germany is more than four times as large as the one in eastern Germany. This will open new doors for us to expand in the future. «

NICLAS KAROFF, MEMBER OF THE MANAGEMENT BOARD OF TLG IMMOBILIEN AG

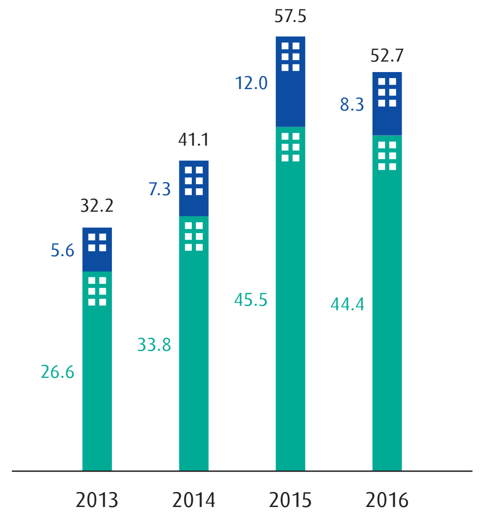
ENTRY INTO OTHER GERMAN MARKETS, UNCHANGED STRATEGIC FOCUS

For TLG IMMOBILIEN AG, the acquisition of two office properties in Frankfurt am Main was the first strategic step towards broadening its value-creating investment approach to encompass other German growth markets. Both properties are highly stable due to their outstanding local positions and extremely low vacancy rates. With a combined annualised in-place rent of almost EUR 10 m and credit-worthy tenants including Hochtief, Techniker Krankenkasse and Air Liquide, TLG IMMOBILIEN AG is certain that the properties are ideal initial investments in the growth region of Rhine-Main.

The two new properties in Frankfurt/Main generate rental income of EUR 9.8 m

HIGHER POTENTIAL AMONGST WESTERN GERMAN COMMERCIAL PROPERTIES

Transaction volume in EUR bn



■ *Western Germany* ■ *Berlin and eastern Germany*

Source: Savills Advisory Services

ACQUISITION OF TWO OFFICE PROPERTIES IN FRANKFURT AM MAIN

CAMPUS CARRÉ, FRANKFURT AM MAIN

Property value	EUR 85.8 m
Total area	31,590 sqm
Annualised in-place rent	EUR 5.5 m
EPRA Vacancy Rate	1.9 %
WALT	5.4 years
Transfer of benefits and encumbrances	31 December 2016

OFFICE BUILDING: OLOF-PALME-STRASSE 35, FRANKFURT AM MAIN

Property value	EUR 75.0 m
Total area	26,393 sqm
Annualised in-place rent	EUR 4,3 m
EPRA Vacancy Rate	0 %
WALT	9 years
Transfer of benefits and encumbrances	31 December 2016

DECISIVE COMPETITIVE ADVANTAGES THROUGH A LOCAL PRESENCE

TLG IMMOBILIEN AG focuses on key German growth centres. The property portfolio is managed by two highly capable locations in Berlin and Dresden as well as offices in Leipzig, Rostock and Erfurt. Another office is under construction in Frankfurt am Main. From 2017 onwards, the company intends to manage its further regional expansion into northern, southern and western Germany from the Rhine-Main area. Close contact with local institutional and private market participants and decision-makers generates decisive competitive advantages.

SACHSEN FORUM/SPECIAL RETAIL CENTRE MERIANPLATZ, DRESDEN

Property value	EUR 23.9 m
Total area	14,578 sqm
Annualised in-place rent	EUR 1.7 m
EPRA Vacancy Rate	1.2 %
WALT	3.3 years
Transfer of benefits and encumbrances	1 November 2016 (Sachsen Forum) 1 December 2016 (SRC Merianplatz)

EXPANSION TO A HIGHLY FREQUENTED RETAIL LOCATION IN DRESDEN

TLG IMMOBILIEN AG has added two directly adjacent retail properties in Dresden, one of the most prosperous cities in eastern Germany, to its retail portfolio. The properties have good potential for the future due to the steady influx of people and positive economic developments. Anchor tenants include Konsum Dresden, Rossmann, Penny and Ostsächsische Sparkasse.

OFFICE BUILDING: KAPWEG 3–5, BERLIN

Property value	EUR 30.6 m
Total area	18,186 sqm
Annualised in-place rent*	EUR 0.7 m
EPRA Vacancy Rate	58.5 %
WALT	6.0 years
Transfer of benefits and encumbrances	1 October 2016

* *Without the agreed rental guarantee*

THE NEW OFFICE PROPERTY IN BERLIN HAS CONSIDERABLE RENTING POTENTIAL

An office property on Kapweg in Berlin, which TLG IMMOBILIEN AG added to its portfolio in October 2016, has considerable renting potential. Due to the ongoing repositioning of the property and the strong level of local demand, the vacant space that is currently secured by a rent guarantee is expected to be reduced significantly in 2017.

TECHNISCHES RATHAUS, PRAGER STR., LEIPZIG

Property value	EUR 58.3 m
Total area	45,016 sqm
Annualised in-place rent	EUR 3.3 m
EPRA Vacancy Rate	0.3 %
WALT	8.4 years
Transfer of benefits and encumbrances	1 October 2016

LONG-TERM FULL OCCUPANCY WITH THE GOVERNMENT AS THE MAIN TENANT

With a total WALT of 8.4 years and a central location in Leipzig, the office building “Technisches Rathaus” acquired in spring 2016 already generates secure long-term rental income, not least because the main tenant of the property is the public authority represented by the city of Leipzig. Leipzig has experienced steady growth in recent years and is currently one of the most promising locations for real estate investments in Germany.

Technisches Rathaus Leipzig (Acquisition 2016)

ERLENHÖFE, AROSER ALLEE 68, BERLIN

Property value	EUR 51.9 m
Total area	36,717 sqm
Annualised in-place rent	EUR 3.0 m
EPRA Vacancy Rate	6.1 %
WALT	4.3 years
Transfer of benefits and encumbrances	15 April 2016

HIGH-QUALITY OFFICE PROPERTY ACQUIRED IN BERLIN

TLG IMMOBILIEN AG added another high-quality office building to its portfolio with the "Erlenhöfe" property. Companies in the health sector in particular have based themselves here, such as Germany's largest public hospital operator Vivantes and Vitanas, one of the largest nursing home operators in Germany. As a result, the vacancy rate was cut from 11.5% upon acquisition to just 6.1% through the successful conclusion of a range of rental agreements within the first eight months.

HOTEL AND OFFICE BUILDING: WIENER PLATZ 8/9, DRESDEN

Property value	EUR 25.9 m
Total area	12,270 sqm
Annualised in-place rent	EUR 1.7 m
EPRA Vacancy Rate	2.6 %
WALT	9.1 years
Transfer of benefits and encumbrances	2 February 2016

A HOTEL AND OFFICE PROPERTY IN CENTRAL DRESDEN

The hotel and office building was built in 2008 and is located next to the main station and in direct proximity to one of the most important commercial streets and pedestrian zones in Dresden: Prager Strasse. The largest individual tenant is the hotel chain InterCityHotels, a subsidiary of the Steigenberger Group, which operates a hotel with 162 rooms there. The property meets the key investment criteria of TLG IMMOBILIEN AG for hotels: It has an excellent location, outstanding structural quality and a well-known, long-term anchor tenant.

RENTAL AGREEMENTS

A BASIS FOR STEADY CASH FLOW GROWTH

In 2016, TLG IMMOBILIEN AG was able to increase its rental income by 10.3%. This attests to the high quality of the company's effective real estate portfolio.

In 2016, the annualised in-place rent of the entire portfolio increased by 18.2% to EUR 155.3 m, due primarily to acquisitions and the reduction of vacancy rates. On a like-for-like basis, i.e. without the acquisitions and disposals in 2016, the annualised in-place rent increased by 1.2%. While the EPRA Vacancy Rate remained at 2.8% on a like-for-like basis – a low level for the sector – the increase in the annualised in-place rent is due primarily to new rental agreements and increases in rent.

Additionally, the average rents in the entire portfolio increased from 9.23 EUR/sqm to 9.67 EUR/sqm due to increased demand and technical measures as part of new rental agreements.

A COVETED LOCATION AROUND ALEXANDERPLATZ IN BERLIN

Over the course of 2016, TLG IMMOBILIEN AG was able to rent out more than 11,600 sqm of space in the office building at Alexanderstrasse 1, 3, 5 in Berlin to a number of different businesses. In one year, this made it possible to reduce the vacancy rate from around 25% to just 10.5% at the end of 2016. In this context, the rent per square metre was adjusted based on the significantly higher market level. This underlines the high demand for the lettable area of TLG IMMOBILIEN AG in central locations such as Alexanderplatz in Berlin.

Around 1,600 sqm was rented to the online comparison portal Check24. Before this, 8,100 sqm had already been rented to Visual Meta, a subsidiary of Axel Springer.

Office building Alexanderstraße, Berlin

» The volume of large, attractive office space in direct proximity to our previous location in Berlin-Mitte is low. We are therefore very happy with this central location, which has enough room for us to develop our portals. «

JOHANNES KOTTE, MANAGING DIRECTOR OF VISUAL META (WWW.LADENZEILE.DE), SPEAKING ABOUT THE NEW AGREEMENT IN THE OFFICE BUILDING AT ALEXANDERSTRASSE 1, 3, 5

PROFITING FROM CUSTOMER GROWTH

At its property in Alexanderstrasse 3, TLG IMMOBILIEN AG profited from the expansion of the leading DSL and mobile communications provider 1&1 as space that was already being rented out was increased by an additional 2,200 sqm for the next four years.

LONG-TERM TENANT RETENTION THROUGH CUSTOMER-ORIENTED PROPERTY MANAGEMENT

Through the customer-oriented management of its real estate portfolio, TLG IMMOBILIEN AG is ensuring that the level of demand from long-term, creditworthy tenants remains high. This management approach consists of write-ups in the value of buildings, e.g. through the application of stricter technological standards. Around 40.4% of the annualised in-place rent of the entire portfolio is attributable to the ten most important tenants. In 2016, the top 3 were the retail groups Edeka (Edeka, Netto Marken-Discount) and Rewe (Rewe, Penny) as well as THR Hotel (Ramada, H_2 Hotel), which together accounted for more than 23% of the income from annualised in-place rent.

BRIEF NEWS

Vacant space in "Erlenhöfe" reduced by 60% in five months

Multiple rental agreements covering a total of 3,200 sqm of space in the office building "Erlenhöfe" in Berlin, which was only acquired in spring 2016, were signed in just five months. The space will be occupied in 2016 and 2017, which means that 60% of the space that was vacant when the property was acquired has already been rented out.

Structural upgrades ensure more easily lettable shop space

Following structural optimisations, 1,300 sqm of vacant shop space in "Quartier17" in Stralsund was rented out for 12.5 years.

Full occupancy in the office property "Spreétage" in Berlin

The rental agreement for the last free 580 sqm in the office property "Spreétage", which was acquired in 2014 with a vacancy rate of 11.5%, was signed in October 2016. Therefore, the property will be fully occupied from March 2017 onwards.

THE QUALITY OF THE PORTFOLIO ENSURES LOW VACANCY RATES AND RENTAL INCOME GROWTH

Office
Retail
Hotel
Other

A STRONG PORTFOLIO	As at 31/12/2016 (total)	As at 31/12/2016 (like-for-like)	Change from previous year (like-for-like)
Annualised in-place rent in EUR m	155.3	129.3	1.6
Average rent in EUR/sqm/month	9.67	9.75	0.17
EPRA Vacancy Rate in %	3.8	2.8	0.0
WALT in years	6.1	6.1	−0.6

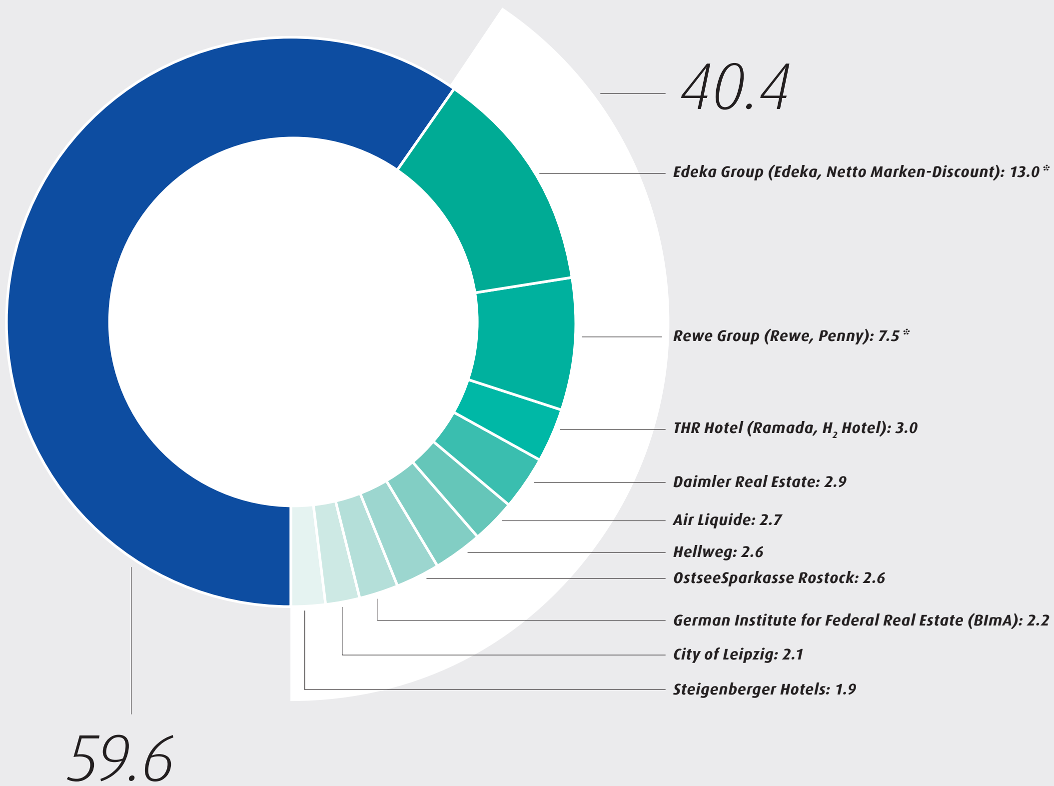
SOLID LONG-TERM RENTAL INCOME DUE TO RELIABLE TENANTS AND LONG CONTRACTUAL TERMS

CREDITWORTHY ANCHOR TENANTS ARE SECURING FUTURE FINANCE FOR GROWTH

The excellent tenant structure is the basis of sustainable cash flows that can be used to finance organic growth in the future. The range of creditworthy major tenants in the 404 properties in the portfolio of TLG IMMOBILIEN AG also allows for excellent risk diversification. The ten largest anchor tenants of the company accounted for 40.4% of the total annualised in-place rent as at 31 December 2016. With a weighted average lease term of between five and six years for rental agreements for office and retail properties as well as around 13 years for hotels, it is also easy for TLG IMMOBILIEN AG to plan its incoming cash flows in the long term.

TOP TEN TENANTS
BY ANNUALISED IN-PLACE RENT AS AT 31 DECEMBER 2016

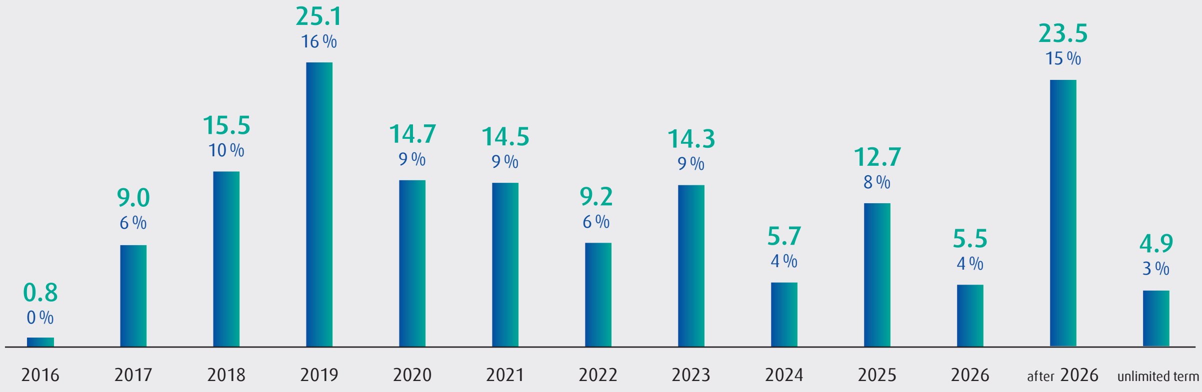
in %



** Including renaming of Kaiser's Tengelmann following the disposal*

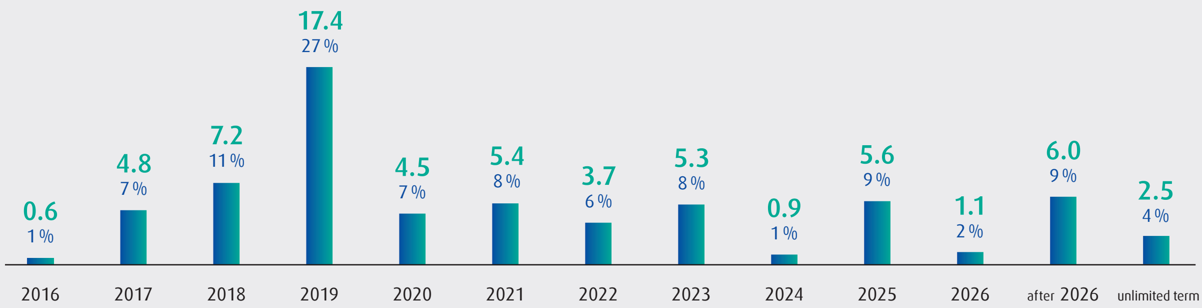
RENTAL AGREEMENT EXPIRIES AFTER NUMBER OF YEARS • TOTAL PORTFOLIO

as at 31 December 2016



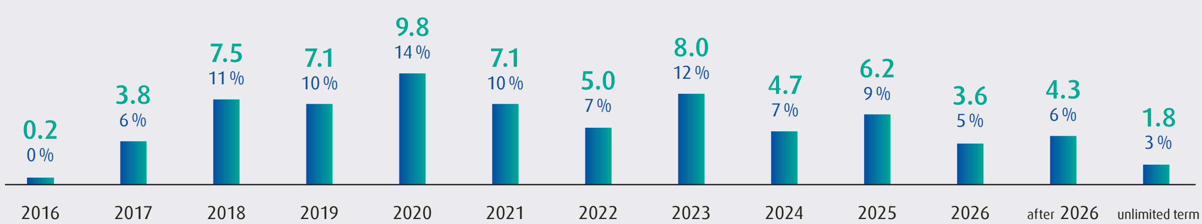
RENTAL AGREEMENT EXPIRIES AFTER NUMBER OF YEARS • OFFICE ASSET CLASS

as at 31 December 2016



RENTAL AGREEMENT EXPIRIES AFTER NUMBER OF YEARS • RETAIL ASSET CLASS

as at 31 December 2016



Annualised in-place rent *Percentage of annualised in-place rent*

COST EFFICIENCY

LEVERAGE FOR IMPROVED PROFITABILITY

Besides increasing income, the company is focused on reducing long-term costs and in turn its EPRA Cost Ratio.

Another important way of improving income is higher cost efficiency within the company. Thanks to disproportionate increases in rental income combined with reductions in operating expenses, TLG IMMOBILIEN AG has made significant progress in this regard in recent years. As reported, rental income increased from EUR 127.4 m to EUR 140.5 m in the reporting year. Thanks to these developments and the improved cost efficiency, the company was able to reduce its EPRA Cost Ratio significantly. Including direct vacancy costs, it has decreased from 31.8% at the end of 2014 to just 24.1%. Excluding direct vacancy costs, this key performance indicator has improved from 30.2% to 23.0% in just two years. Calculating the portfolio value based on a single employee reveals another increase of 39.3% to EUR 20.2 m (previous year EUR 14.7 m). These indicators might improve even more in future due to the large investment volume per property, even if they do not improve as quickly as in previous years due to the already low level.

» We have already improved our cost efficiency significantly. Yet we still see potential. «

PETER FINKBEINER, MEMBER OF THE MANAGEMENT BOARD OF TLG IMMOBILIEN AG

REDUCTION OF FINANCING COSTS

Despite the growth of the company, expenses related to financing have only increased slightly. For example, its financial income fell from EUR −23.4 m to EUR −25.3 m in the reporting year. The company aims to achieve further improvements in future through a diversified financial structure. The success of the company in this regard in 2016 is reflected in the fact that the average costs of debt fell once again from 2.79% to 2.46%.

By the end of 2016, the EPRA Cost Ratio (incl. direct vacancy costs) dropped to

24.1 %

The average costs of debt decreased to

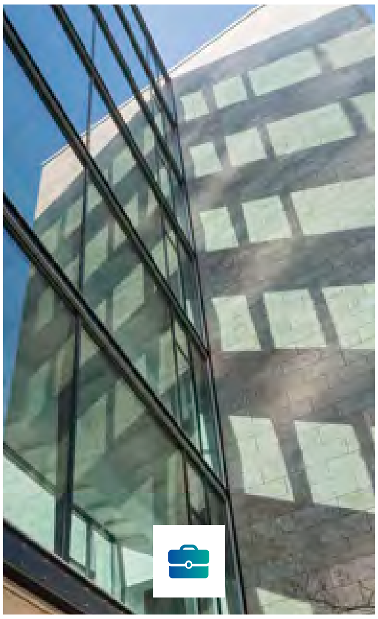
2.46 %

in 2016.

COSTS UNDER CONTROL

*EPRA Cost Ratio in % **

** Including direct vacancy costs*



FOREWORD OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS AND TENANTS,
DEAR SIR OR MADAM,

What do you think of when you look back on the 2016 financial year? Last year was certainly characterised by its economic developments and surprising political decisions. The property markets relevant to us had not yet been affected by these events. We were therefore able to make good use of the time to continue expanding the solid foundation of TLG IMMOBILIEN AG as planned. We have taken appropriate care to create a solid platform with which to prepare ourselves optimally for the future because we want our valuable growth to continue.

Our transactions attest to our continued success in 2016: By acquiring twelve office, two retail and two hotel properties in Berlin, Frankfurt am Main, Dresden and Leipzig, we have managed to increase the value of our portfolio to EUR 2.2 bn. This represents an increase of 26.9% compared to the end of the previous year and enabled us to surpass the portfolio value of EUR 2 bn that was set as a milestone as part of our IPO more than one year earlier than originally forecast. Additionally, by acquiring two office properties in Frankfurt am Main for EUR 160 m in October 2016, we have begun to pave the way for our strategic market entry and continued growth in western Germany and made a significant addition to our platform. Frankfurt am Main is now the second-largest office property location in our portfolio.

We used the consistently positive market environment to generate this growth and to dispose of properties from our non-strategic portfolio and have continued to optimise our portfolio through active portfolio management. A number of new rental agreements and amendments to existing rental agreements have also contributed to improving our key performance indicators in the 2016 financial year:

As at 31 December 2016, the EPRA Vacancy Rate had increased marginally by 0.1 percentage points to 3.8% and thus remained at a low level following the acquisitions made in 2016. Our net operating income from letting activities was EUR 125.6 m as at the same date, which represents an increase of 10.1% over the previous year.

Income from properties recently added to the portfolio, the optimisation of income from the rest of our portfolio and cost adjustments have had a highly positive effect on our funds from operations (FFO). Our FFO was EUR 76.9 m as at the end of 2016. They therefore increased by 20.1% compared to the previous year and were thus outside of the corridor of EUR 74 m to EUR 76 m forecast for the financial year.

Even the EPRA Net Asset Value (EPRA NAV) of TLG IMMOBILIEN AG increased to EUR 18.51 per share in light of the new acquisitions. On 31 December 2016, it was therefore 6.5% higher than at the end of the previous year. The shares of TLG IMMOBILIEN AG closed the same day at EUR 17.90. This represents an increase of 2.9% in the value of its shares in the financial year ended.

Additionally, in 2016 we published our first sustainability report detailing our aim to maintain our economically, ecologically and socially successful course of business in future. We aim to continue providing increased transparency for all of our stakeholders in the future with this voluntary annual report.

In 2016, we were once again able to rely on you, our valued shareholders, to place your trust in us and engage in an open dialogue. We are tremendously grateful for your support of our growth strategy and want to share its success with you. We therefore intend to propose the payment of a dividend of EUR 0.80 per share, equivalent to a total of EUR 59.3 m, to our general meeting on 23 May 2017, with consideration for the new shares from the capital increase in January 2017. This would be an 11.0% increase over the dividend per share paid in the previous year.

Dear business partners and tenants, our partnership was close and cooperative in the 2016 financial year. You too have our sincere gratitude for this successful period.

We also wish to thank the employees of the Group, without whom no valuable growth would have been possible. Together we were able to greatly surpass the already remarkable results of the previous year in 2016.

At this point last year we made it clear that we want you to judge us by our stated targets and are happy that we have not only reached but exceeded them. In future, we aim to press on with our strategy and look forward to a trusting partnership. We will continue to focus on acquiring strategic office and retail properties throughout Germany as well as selected hotel properties. We will also continue to manage our property portfolio efficiently and in turn increase our results of operations. In light of the acquisitions we have made, we expect our FFO to be between EUR 84 m and EUR 86 m in the 2017 financial year. This would correspond to an increase of between 9% and 12% compared to the previous year.

Berlin, 10 February 2017

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

TLG IMMOBILIEN AG performed very well in the 2016 financial year, especially by virtue of its successful acquisitions, and improved its key performance indicators yet again.

A TRUSTING PARTNERSHIP WITH THE MANAGEMENT BOARD

In the 2016 financial year, the Supervisory Board fulfilled the responsibilities incumbent upon it in line with the law, Articles of Association, German Corporate Governance Code and rules of procedure with the greatest of care. It regularly advised the Management Board on the management of the company and monitored its activities.

The Management Board provided the Supervisory Board with regular, prompt and comprehensive reports on policies, strategy and planning and the position of the company, including opportunities and risks, the course of business and risk management. Any discrepancies between planned and actual developments were discussed in detail. The Management Board coordinated all significant transactions with the Supervisory Board.

Even outside of the meetings of the Supervisory Board and its committees, the Chairman of the Supervisory Board and other members of the Supervisory Board were in regular contact with the Management Board and discussed key issues. These issues included the strategic orientation of the company and business developments.

As described in more detail below, the Supervisory Board was quickly and directly involved in all decisions of fundamental importance to the company. The Supervisory Board examined transactions requiring its approval and discussed each one with the Management Board.

MEETINGS OF THE SUPERVISORY BOARD

In the 2016 financial year, the Supervisory Board convened five times – including once by way of a teleconference – to discuss current business developments, important transactions and transactions requiring approval. The Supervisory Board passed the necessary resolution for each proposal after carrying out thorough examinations and holding detailed discussions in its meetings.

In the reporting year, Mr Michael Zahn and Mr Alexander Heße were each unable to attend one meeting in person; otherwise, all members of the Supervisory Board were present.

In the 2016 financial year, the work of the Supervisory Board focused on planning and developing the business of TLG IMMOBILIEN AG as well as the corporate strategy, property acquisitions and capital measures. The Supervisory Board regularly held in-depth consultations on the development of the office and retail portfolio as well as on the financial position and liquidity of the Group.

In its **meeting on 29 March 2016**, the Supervisory Board discussed the annual and consolidated financial statements for 2015, the recommended auditor for 2016 and matters of the Management Board in particular. Representatives of the auditor attended the discussions on the annual and consolidated financial statements for 2015 in order to provide explanations regarding line items and methods in the financial statements. Other key matters included the agenda and proposed resolutions for the general meeting in 2016, the report of the Supervisory Board and the Corporate Governance Report.

MICHAEL ZAHN, CHAIRMAN OF THE SUPERVISORY BOARD

In its **meeting on 31 May 2016**, the Supervisory Board addressed the report of the audit committee, especially on the financial report for the first quarter, potential acquisitions and matters of finance. Additionally, the Supervisory Board adopted new rules of procedure for the Management Board.

The **meeting on 9 August 2016** focused on the half-yearly financial report of the company. In the meeting, the Supervisory Board also discussed the report of the presidential and nomination committee, the disposal of a retail portfolio as well as the development of the company and its options with regard to growth in detail.

The **meeting on 11 October 2016** was held as a teleconference and focused on the acquisition of two office properties in Frankfurt including means of finance, other opportunities for growth and the report on the progress of the selection process for the vacant position on the Supervisory Board.

In its **meeting on 10 November 2016**, the Supervisory Board addressed the report of the audit committee on the financial report for the third quarter. It also approved the business plan for 2017 and examined the medium-term plan and the capital structure of the Company. Furthermore, the Supervisory Board discussed the status of the application process for the vacant position on the Supervisory Board, the German Corporate Governance Code and the sustainability report for 2015.

Besides these meetings, in the 2016 financial year the Supervisory Board **passed several resolutions** in connection with acquisitions and the engagement of consultants by providing written consent in lieu of a meeting.

EFFICIENT WORK IN THREE SUPERVISORY BOARD COMMITTEES

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

Specifically, the following three committees existed in the reporting year:

- Presidential and nomination committee
- Audit committee
- Capital measures committee

The committees' responsibilities are presented in more detail in the Corporate Governance Report available at *http://ir.tlg.eu/corporategovernance*.

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

The **presidential and nomination committee** convened four times in the reporting year: on 29 March 2016, by phone on 14 June 2016, on 17 October 2016 and on 31 October 2016. The meetings focused primarily on matters of the Management Board (remuneration issues), strategic considerations of the company and matters of the Supervisory Board (proposal to fill a position on the Supervisory Board).

The **audit committee** convened four times in the reporting year on 29 March 2016, 11 May 2016, 9 August 2016 and 10 November 2016. In particular, these meetings involved a preliminary audit of the annual financial statements, consolidated financial statements and interim reports of TLG IMMOBILIEN AG, as well as a discussion of the internal auditing and cyber security systems and a potential change to the ERP system of the company. It provided the Supervisory Board with a recommendation on which auditor to appoint for the 2016 financial year, procured the independence declaration from the auditor and monitored the activities of the auditor. Additionally, the audit committee approved the engagement of Ernst & Young Real Estate GmbH and the Berlin office of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, to render non-audit services in connection with capital measures by providing written consent in lieu of three meetings. The members of the audit committee have particular knowledge and experience in the application of GAAP and internal control processes.

The new **capital measures committee**, formed by resolution of the plenary session of 10 November 2016, advised the Management Board on issues relating to the capital markets in two teleconferences on 15 and 22 November 2016.

CORPORATE GOVERNANCE

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

The Management Board and Supervisory Board have discussed the requirements of the German Corporate Governance Code as applicable in the reporting year in detail, as well as their implementation. They have issued their updated joint declaration of compliance pursuant to § 161 AktG and published it on the website of TLG IMMOBILIEN AG http://ir.tlg.eu/corporategovernance.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of TLG IMMOBILIEN AG and the consolidated financial statements as at 31 December 2016, including management reports, prepared by the Management Board were examined by the auditor appointed by the general meeting on 31 May 2016 and engaged by the Supervisory Board, the Berlin office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and given an unqualified opinion.

Once prepared, the annual and consolidated financial statements of TLG IMMOBILIEN AG, including management reports and the audit reports of the auditor, were issued to all members of the Supervisory Board immediately. The auditor attended the audit committee meeting held on 7 March 2017 and reported on the key results of the audit. After an in-depth discussion, the audit committee agreed with the results of the audit.

The Chairperson of the audit committee reported on the annual financial statements and the audit in detail at the meeting of the Supervisory Board held on 7 March 2017. Additionally, the auditor explained the main outcomes of the audit, answered questions and provided more information to the members of the Supervisory Board. The Supervisory Board carefully examined the annual financial statements, the management report, the consolidated financial statements, the Group management report, the proposed appropriation of net retained profits and the audit reports prepared by the auditor. No objections were raised. Therefore, the Supervisory Board accepted the recommendation of the audit committee and approved the annual and consolidated financial statements as at 31 December 2016 that had been prepared by the Management Board. The annual financial statements were therefore adopted.

The adopted annual financial statements contained net retained profits. The Supervisory Board accepted the proposal made by the Management Board as to the appropriation of the net retained profits. Therefore, the Supervisory Board and Management Board will add a vote on the payment of a dividend of EUR 0.80 per eligible share to the agenda of the general meeting.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Mr Alexander Heße resigned from his position as a member of the Supervisory Board, effective from the end of the general meeting on 31 May 2016.

On 10 February 2017, the local court of Berlin Charlottenburg appointed Mr Frank D. Masuhr as a new member of the Supervisory Board. His position as a judicially appointed member of the Supervisory Board shall end at the end of the general meeting which resolves on dismissals for the 2016 financial year at the latest.

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

Berlin, March 2017
For the Supervisory Board

Michael Zahn
Chairman of the Supervisory Board

TLG IMMOBILIEN SHARES

Following a turbulent first six months, the stock market regained significant momentum in the second half of the year. There were a number of reasons for this: At the start of the 2016 financial year, the main drivers of the capital markets included the temporary fall in oil prices to a twelve-year low, falling early indicators in Europe and the USA as well as the more expansive policies of the central banks in the eurozone, Japan and China. At the end of the first half of the year, the surprising British decision to leave the EU had a considerable impact on European stock markets. Additionally, factors such as the growing strain faced by the European banking sector and poor economic data in China were placing pressure on stock markets. Factors such as improved economic data in the eurozone, the new debt deal with Greece and stable oil prices resulted in momentary upturns on the stock markets.

In particular, abating fears of the effects of Brexit on the global economy, robust job market data and unchanged interest rates in the USA and the prospect of more moderate interest rate increases than expected have had a positive effect on stock markets at the start of the third quarter. Worries about the European banking sector, the falling business climate index in the USA and political influences such as the failed coup in Turkey only had a short-term impact on the markets in the third quarter. Stock markets gained ground in the final quarter of 2016 due to hopes for growth-friendly Trump policies, the extension of the bond-buying scheme of the European Central Bank and the increase in early indicators to a several-year high.

Over the course of the year, the DAX increased by 9.5% compared to its opening price on 4 January 2016. The performance of the SDAX was not quite as strong, with growth of 5.3% in the same period. For real estate shares, 2016 was a mixed year. The FTSE EPRA/NAREIT Germany Index grew by 8.3% and the FTSE EPRA/NAREIT Europe Index fell by 6.4% over the course of 2016.

The shares of TLG IMMOBILIEN enjoyed a good start to 2016 and reached a peak of EUR 20.84 on Xetra on 11 August 2016. However, the shares decreased in value in the fourth quarter and closed the year at EUR 17.90, which represents an annual performance of 2.9% compared to the opening price of EUR 17.40 at the start of the year.

TLG IMMOBILIEN SHARE DATA

ISIN/WKN	DE000A12B8Z4/A12B8Z
Ticker symbol	TLG
Share capital in EUR	67,432,326.00
Number of shares (no-par-value bearer shares)	67,432,326
Indices (selection)	SDAX, EPRA/NAREIT Global Index, EPRA/NAREIT Europe Index, EPRA/NAREIT Germany Index
Sector/sub-sector	Real estate
Market segment	Regulated market (Prime Standard)
Designated sponsors	Commerzbank AG, ODDO SEYDLER BANK AG
Reporting period high on 11/08/2016 (Xetra) in EUR	20.84
Reporting period low on 21/01/2016 (Xetra) in EUR	16.12
Closing price on 30/12/2016 (Xetra) in EUR	17.90
Market capitalisation in EUR m	1,207.0

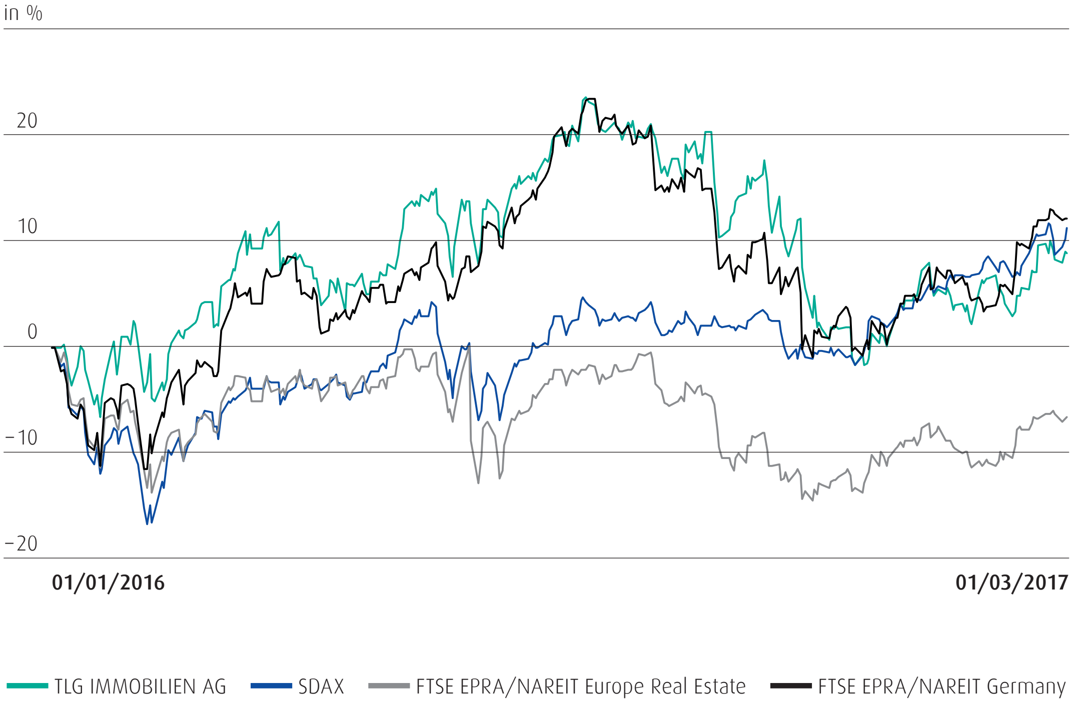
ANNUAL GENERAL MEETING

The annual general meeting of TLG IMMOBILIEN AG was held at the RAMADA Hotel Berlin-Alexanderplatz, Karl-Liebknecht-Strasse 32, 10178 Berlin, on 31 May 2016. The property belongs to the portfolio of the company.

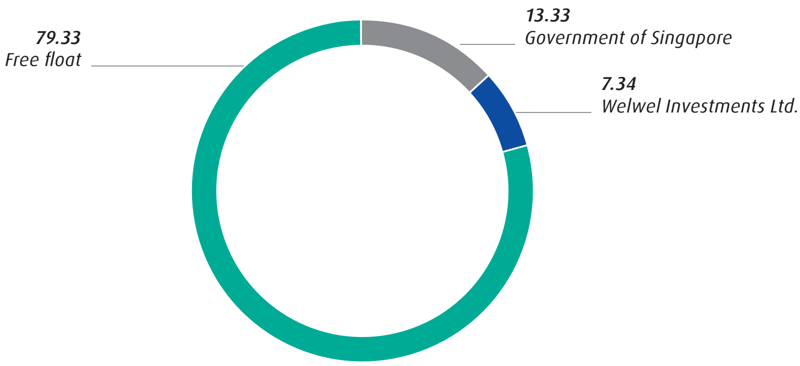
Overall, approximately 57% of the total share capital of the company was represented at the meeting. The proposals of the management on all matters of the agenda were passed by a large majority. In line with the resolution, a dividend of EUR 0.72 per share was distributed immediately on the following day (1 June 2016).

The 2017 general meeting is likely to be held in Berlin on 23 May 2017.

PERFORMANCE OF THE SHARES BY INDEX



Shareholder structure as at 31 December 2016 *



* Data based on the latest voting rights notifications.

__Government of Singapore:__ Indirect shareholding as reported for 24 July 2015. The government of Singapore is the majority shareholder of GIC Private Limited, which held all of the reported voting rights of the company as at the key date. On that date, the total number of voting rights was 61,302,326. The number of voting rights reported to the company by the government of Singapore for 24 July 2015 would correspond to 12.12% of the total number of voting rights as at 31 December 2016.
__Welwel Investments Ltd.:__ Indirect shareholding of Welwel Investments Ltd. as at 14 November 2016. Welwel Investments Ltd. is the controlling company of ADAR Capital Partners Ltd. The shares are held by ADAR Macro Fund Ltd.
__Total free float__ as defined by Deutsche Börse.
The diagram shows the voting rights last disclosed by shareholders according to § 21 and § 22 of the German Securities Trading Act (WpHG), based on the share capital of TLG IMMOBILIEN AG at the time. Please note that the last disclosed number of voting rights might since have changed within the thresholds without the shareholders being obliged to inform the company.

As at 31 December 2016, there were 67,432,326 shares of TLG IMMOBILIEN AG outstanding.

Coverage by analysts

Bank	Target price in EUR	Rating	Analyst	Date
Bankhaus Lampe	22.00	Buy	Georg Kanders	06/02/2017
Deutsche Bank	21.00	Buy	Markus Scheufler	01/02/2017
NORD/LB	18.00	Hold	Michael Seufert	31/01/2017
J.P. Morgan	21.00	Overweight	Tim Leckie	31/01/2017
UBS	18.50	Neutral	Osmaan Malik	24/01/2017
Victoria Partners	18.80–20.60	n/a	Bernd Janssen	17/01/2017
Kempen & Co.	18.00	Neutral	Remco Simon	09/01/2017
Kepler Cheuvreux	22.00	Buy	Thomas Neuhold	02/01/2017
Berenberg	22.00	Buy	Kai Klose	28/11/2016
HSBC	22.00	Buy	Thomas Martin	22/11/2016

Source: Bloomberg (as at 02/03/2017) and broker research

In 2016, the following banks started covering the shares of TLG IMMOBILIEN: Joh. Berenberg, Gossler & Co. KG, Kepler Cheuvreux and NORD/LB.

INVESTOR RELATIONS ACTIVITIES

In 2016, we communicated closely with our shareholders, analysts and potential investors. TLG IMMOBILIEN AG attended the following national and international banking conferences:

- ODDO & Cie – ODDO FORUM, Lyon
- J.P. Morgan – European Real Estate CEO Conference, London
- UniCredit Kepler Cheuvreux – German Corporate Conference 2016, Frankfurt/Main
- ODDO SEYDLER – Small and Mid Cap Conference 2016, Frankfurt/Main
- Kempen & Co – European Property Seminar, Amsterdam
- Kepler Cheuvreux – German Property Day, Paris
- Deutsche Bank – dbAccess German, Swiss & Austrian Conference, Berlin
- EPRA Conference, Paris
- Bank of America Merrill Lynch – 2016 Global Real Estate Conference, New York
- Berenberg and Goldman Sachs Fifth German Corporate Conference, Munich
- Baader Investment Conference, Munich
- Société Générale, Pan-European Real Estate Conference, London

In addition, roadshows were held in London, Edinburgh, New York, and Boston. In addition to participating in conferences and roadshows, we visited some of our own properties with analysts and shareholders.

TLG IMMOBILIEN AG is committed to an active dialogue with the market. For example, when the figures for 2015 and the three quarterly reports for 2016 were published, the numbers were discussed with investors and analysts in teleconferences. Likewise, the acquisition of the two office properties in Frankfurt/Main, which heralded the strategic entry of the company into the market for the purposes of future growth in western Germany, was explained to investors and analysts in detail in a teleconference. Recordings of the teleconferences are available in the Investor Relations section of our website, *www.tlg.eu*. On this website, we publish our quarterly and annual reports, our latest company presentation, ad hoc announcements, company news, voting rights notifications and directors' dealings. The share price of TLG IMMOBILIEN can also be found here. Likewise, the website clearly delineates the shareholder structure and provides essential share-related information.

EPRA BPR GOLD AWARD

The company received the EPRA BPR Gold Award for its Annual Report 2015. This is the second Gold Award in a row.

EPRA KEY FIGURES

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

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

OVERVIEW OF KEY EPRA FIGURES

in EUR k	31/12/2016	31/12/2015	Change	Change in %
EPRA NAV	1,248,259	1,171,594	76,665	6.5
EPRA NNNAV	992,496	931,029	61,467	6.6
EPRA Net Initial Yield (NIY) in %	5.7	6.1	−0.4 pp	
EPRA "topped-up" Net Initial Yield in %	5.7	6.1	−0.4 pp	
EPRA Vacancy Rate in %	3.8	3.7	0.1 pp	

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
EPRA Earnings	78,781	64,929	13,852	21.3
EPRA Cost Ratio (including direct vacancy costs) in % [1]	24.1	26.4	−2.3 pp	
EPRA Cost Ratio (excluding direct vacancy costs) in % [1]	23.0	24.5	−1.5 pp	

[1] *Reclassifications of account items in the financial year caused certain values from the previous year to change (see section F of the notes).*

EPRA EARNINGS

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

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

The significant increase in EPRA Earnings compared to the same period in the previous year is primarily due to the higher rental income following successful acquisitions and reductions in expenses.

EPRA EARNINGS

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Net income	94,109	130,862	−36,753	−28.1
Result from the remeasurement of investment property	−39,860	−87,856	47,996	−54.6
Result from the disposal of investment property [1]	−6,103	−8,088	1,985	−24.5
Result from the disposal of real estate inventories	−10	−771	761	−98.7
Tax on profits or losses on disposals	0	−4,407	4,407	−100.0
Gain/loss from the remeasurement of derivative financial instruments	−299	848	−1,147	n/a
Acquisition costs of share deals	957	0	957	n/a
Deferred and actual taxes in respect of EPRA adjustments	30,098	34,583	−4,485	−13.0
Non-controlling interests	−111	−242	131	−54.1
EPRA Earnings	**78,781**	**64,929**	**13,852**	**21.3**
Average number of shares on issue (in thousands)	67,432	62,041		
EPRA Earnings per share (in EUR) [2]	1.17	1.05		

[1] Including the costs resulting from the EUR k 278 adjustment of the purchase price for the disposal of Grimma business park, held as an investment; disclosed in the income statement in other operating income
[2] Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.

EPRA NET ASSET VALUE (EPRA NAV)

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

The EPRA NAV increased by EUR k 76,665 to EUR k 1,248,259 compared to 31 December 2015, which corresponds to an EPRA NAV per share of EUR 18.51.

The increase was predominantly the result of the increase in equity due in particular to the net income of EUR k 93,998 which was influenced primarily by the positive course of business as well as the positive change in the value of the property portfolio (EUR k 39,860).

In addition to the change in equity capital, which is primarily supported by the net income, the deferred tax liabilities contribute to the development of the EPRA NAV. The increase in deferred tax liabilities from EUR k 31,846 to EUR k 217,713 essentially results from the measurement of the investment properties at their fair values.

EPRA NET ASSET VALUE (EPRA NAV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Equity [1]	1,009,503	965,065	44,438	4.6
Fair value adjustment of fixed assets (IAS 16)	5,327	5,572	−245	−4.4
Fair value adjustment of real estate inventories (IAS 2)	1,443	333	1,110	333.3
Fair value of derivative financial instruments	18,089	15,921	2,168	13.6
Deferred tax assets	−2,652	0	−2,652	0
Deferred tax liabilities	217,713	185,867	31,846	17.1
Goodwill	−1,164	−1,164	0	0.0
EPRA Net Asset Value (EPRA NAV)	**1,248,259**	**1,171,594**	**76,665**	**6.5**
Number of shares (in thousands)	67,432	67,432		
EPRA NAV per share (in EUR)	18.51	17.37		

[1] Adjusted for non-controlling interests in 2015

EPRA TRIPLE NET ASSET VALUE (EPRA NNNAV)

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

As at 31 December 2016, the EPRA Triple Net Asset Value was EUR k 992,496 compared to EUR k 931,029 in the previous year. The difference of EUR k 61,467 was caused primarily by the development of equity, which was driven by the net income.

EPRA TRIPLE NET ASSET VALUE (NNNAV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
EPRA Net Asset Value (EPRA NAV)	1,248,259	1,171,594	76,665	6.5
Fair value of derivative financial instruments	−18,089	−15,921	−2,168	13.6
Fair value adjustment of liabilities to financial institutions	−22,613	−38,777	16,164	−41.7
Deferred tax assets	2,652	0	2,652	0
Deferred tax liabilities	−217,713	−185,867	−31,846	17.1
EPRA Triple Net Asset Value (EPRA NNNAV)	**992,496**	**931,029**	**61,467**	**6.6**
Number of shares (in thousands)	67,432	67,432		
EPRA NNNAV per share (in EUR)	14.72	13.81		

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

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

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

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

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property	2,215,228	1,739,474	475,754	27.4
Inventories	1,103	1,104	−1	−0.1
Properties classified as held for sale	19,174	15,912	3,262	20.5
Property portfolio (net)	**2,235,505**	**1,756,490**	**479,015**	**27.3**
Estimated transaction costs	160,047	125,899	34,148	27.1
Property portfolio (gross)	**2,395,552**	**1,882,389**	**513,163**	**27.3**
Annualised cash passing rental income	154,511	131,097	23,414	17.9
Property outgoings	−17,994	−16,533	−1,461	8.8
Annualised net rents	**136,517**	**114,564**	**21,953**	**19.2**
Notional rent for ongoing rent-free periods	764	280	484	172.9
Annualised "topped-up" net rent	**137,281**	**114,844**	**22,437**	**19.5**
EPRA Net Initial Yield (NIY) in %	**5.7**	**6.1**	**−0.4 pp**	
EPRA "topped-up" Net Initial Yield in %	**5.7**	**6.1**	**−0.4 pp**	

EPRA VACANCY RATE

The EPRA Vacancy Rate is the ratio between the market rent for vacant properties and the market rent for the overall portfolio on the reporting date. The market rents used in this calculation were calculated by Savills Advisory Services Germany GmbH & Co. KG as part of the measurement of the real estate portfolio's fair value. At 3.8% in the 2016 reporting year, the EPRA Vacancy Rate increased slightly (previous year 3.7%). Despite the acquisition of an office property in Berlin with a significant volume of vacant space, the EPRA Vacancy Rate increased only slightly as properties with vacant lettable areas were also sold during the financial year.

EPRA VACANCY RATE

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Market rent for vacant properties	6,052	4,919	1,133	23.0
Total market rent	159,728	131,679	28,049	21.3
EPRA Vacancy Rate in %	**3.8**	**3.7**	**0.1 pp**	

EPRA COST RATIO

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

In the 2016 financial year, the increase in rental income combined with only a slight increase in costs, including through the reduction of personnel expenses and other operating expenses, caused the EPRA Cost Ratio to improve.

EPRA COST RATIO

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Costs according to the consolidated statement of comprehensive income under IFRS [1]				
Expenses relating to letting activities	42,474	38,184	4,290	11.2
Personnel expenses	11,261	12,807	–1,546	–12.1
Depreciation and amortisation	561	760	–199	–26.2
Other operating expenses	7,140	7,881	–741	–9.4
Income from recharged operating costs	–23,662	–23,330	–332	1.4
Income from other goods and services	–3,842	–1,573	–2,269	144.2
Other operating income from reimbursements	–33	–1,082	1,049	–97.0
Ground rent	–8	–7	–1	14.3
EPRA costs (including direct vacancy costs)	**33,891**	**33,640**	**251**	**0.7**
Direct vacancy costs	–1,583	–2,457	874	–35.6
EPRA costs (excluding direct vacancy costs)	**32,308**	**31,183**	**1,125**	**3.6**
Rental income	140,464	127,392	13,072	10.3
EPRA Cost Ratio (including direct vacancy costs) in % [1]	**24.1**	**26.4**	**–2.3 pp**	
EPRA Cost Ratio (excluding direct vacancy costs) in % [1]	**23.0**	**24.5**	**–1.5 pp**	

[1] *Reclassifications of account items in the financial year caused individual values from the previous year to change (see section F of the notes).*

CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE

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

IMPLEMENTATION OF THE CODE

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

In the 2016 financial year, the Management Board and Supervisory Board worked carefully to meet the requirements of the Code. They factored in the recommendations to the Code from 5 May 2015 and, in March 2017, pursuant to § 161 AktG, they issued their declaration of compliance with the recommendations of the Code for the 2016 financial year accompanied by statements regarding the few deviations. The declaration is available on the website of the Company *http://ir.tlg.eu/corporategovernance*.

DECLARATION OF COMPLIANCE

In March 2017, the Management Board and Supervisory Board of the Company issued the following joint declaration of compliance pursuant to § 161 AktG:

“The Management Board and Supervisory Board of TLG IMMOBILIEN AG declare that, in the 2016 financial year, TLG IMMOBILIEN AG has fulfilled the recommendations of the amended Code dated 5 May 2015, with the exceptions of recommendation 4.2.1 (no spokesperson for the Management Board) and recommendation 5.4.1 (regular limit of length of membership for the members of the Supervisory Board). Furthermore, the Management Board and Supervisory Board of TLG IMMOBILIEN AG intend to meet all of the recommendations of the Code in the future, excluding the following exceptions described below.

RECOMMENDATION 4.2.1 OF THE CODE: THE MANAGEMENT BOARD SHALL HAVE A CHAIRPERSON OR SPOKESPERSON

Recommendation 4.2.1 (1), line 1, of the Code recommends that the Management Board consist of several people and have a chairperson or spokesperson.

The Company does not believe that it would be advisable to appoint a Management Board chairperson or spokesperson in light of the corporate governance system in place within the Company. As the Management Board consists of just two members, and given their long-term, collegial collaboration, the members of the Management Board are able to work together closely and productively.

RECOMMENDATION 5.4.1 OF THE CODE: REGULAR LIMIT OF LENGTH OF MEMBERSHIP FOR THE MEMBERS OF THE SUPERVISORY BOARD

In accordance with recommendation 5.4.1 (2), line 1, of the Code, the Supervisory Board should specify a regular limit of length of membership for the members of the Supervisory Board.

The Company does not consider such a regular limit appropriate. For the Supervisory Board to be functional and effective, it must consist of a healthy mixture of experienced and newly appointed members. Experienced, long-standing members of the Supervisory Board lose neither their independence nor their access to new ideas through the passage of time alone. The general diversity for which recommendation 5.4.1 of the Code calls must also apply in terms of the length of membership of members of the Supervisory Board and therefore the experience of its members. The specification of a regular limit of length of membership contradicts this call.

Furthermore, the Company voluntarily fulfils the recommendations of the version of the Code dated 5 May 2015, with the following exception:

Under recommendation 2.3.3 of the Code, the Company should make it possible for shareholders to follow the general meeting using modern communication media (e.g. the Internet).

In order to preserve the nature of the general meeting as a face-to-face meeting between the shareholders, the Company has opted not to follow this recommendation. Instead, the Company publishes the results of votes and the presentation of the Management Board on its website.

MANAGEMENT PRACTICES

The management practices of TLG IMMOBILIEN AG are as follows:

WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

MANAGEMENT BOARD

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

The Management Board performs its management duties as a collegial body. The Board's overall responsibility for management notwithstanding, the members of the Management Board manage the divisions to which each has been assigned by the Management Board on their own authority. The divisions are divided between the members of the Management Board as set out in the rules of procedure for the Management Board. In line with the rules of procedure, Mr Peter Finkbeiner is responsible for finance, controlling, accounting, investor relations, legal, IT/organisation and human resources. Mr Niclas Karoff is responsible for investments, disposals, portfolio/asset management, marketing/public relations and branches (acquisition and sale, property management, project development). Both members of the Management Board are jointly responsible for the auditing division.

The work of the Management Board is governed in more detail by rules of procedure which the Supervisory Board most recently updated in May 2016. The rules of procedure stipulate that the strategic orientation of the Company and the strategic allocation of resources are determined by the entire Management Board. Additionally, measures and transactions which are of extraordinary significance to the Company and/or Group companies, or which involve an extraordinarily high economic risk, require the prior approval of the entire Management Board. Furthermore, the rules of procedure and Articles of Association require certain transactions of fundamental significance to be approved by the Supervisory Board or one of its committees in advance.

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

SUPERVISORY BOARD

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

Its rights and duties are determined by the statutory provisions, the Articles of Association, the rules of procedure for the Supervisory Board dated 8 September 2014 and the rules of procedure for the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning.

It works both in plenary sessions and in committees (more details below). The committees work to improve the efficiency of the Supervisory Board's activities. The chairpersons of the committees regularly report to the Supervisory Board on the work of their committees. In line with its rules of procedure, the Supervisory Board must convene at least twice every six months. Otherwise, it convenes whenever the interests of the Company require it. Four Supervisory Board meetings are currently scheduled for the 2017 calendar year.

In particular, the members of the Supervisory Board are selected by virtue of their expertise, abilities and professional suitability. Only persons who will still be under the age of 75 as of the date of appointment may stand for election to the Supervisory Board of the Company. In its rules of procedure, the Supervisory Board has set out the requirement that at least one independent member of the Supervisory Board must be an expert in either accounting or auditing (§ 100 (5) clause 1 AktG). According to § 100 (5) clause 2 AktG, all of the members of the Supervisory Board must also be familiar with the sector in which the company operates. Furthermore, the rules of procedure stipulate that a member of the Supervisory Board who also belongs to the management board of a listed company may not be a member of more than two other supervisory boards of listed companies or companies with similar requirements which do not belong to the TLG IMMOBILIEN Group company in which the Management Board activities are being performed. Additionally, members of the Supervisory Board may not perform any executive functions or serve as consultants for major competitors of the TLG Group. Diversity must also be taken into account with regard to the composition of the Supervisory Board. The Company has followed the specific recommendations of recommendation 5.4.1 (2) and (3) of the Code, which concern the composition of the Supervisory Board under certain criteria, the inclusion of these objectives in the recommendations of the Supervisory Board and the publication of the objectives and their implementation status in the Corporate Governance Report, with the exception that there is no limit for the term of membership on the Supervisory Board pursuant to recommendation 5.4.1 (2), line 1, of the Code.

PROPORTION OF WOMEN

In its meeting on 25 September 2015, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%. The minimum target proportion of women on the Management Board of TLG IMMOBILIEN AG is zero. These targets are to be met continuously until 30 June 2017.

In its meeting on 30 September 2015, the Management Board set the minimum proportion of women on the first management level below the Management Board at 11.11% and the minimum proportion of women on the second management level below the Management Board at 30%; the proportion of women on these management levels may not fall below this target before 30 June 2017.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Pursuant to the Articles of Association, the Management Board consists of at least two people. The Supervisory Board specifies the number of members. In the 2016 financial year, the Management Board consisted of two equal members, each of whom was responsible for the divisions to which they had been assigned.

Pursuant to the Articles of Association, the Supervisory Board consists of six members. It is not subject to any employee participation. All of the members are elected by the general meeting as representatives of the shareholders. Mr Alexander Heße resigned from his position as a member of the Supervisory Board effective from the end of the 2016 general meeting. Mr Frank D. Masuhr was appointed as a member of the Supervisory Board by a court order dated 10 February 2017. All of the members of the Supervisory Board are also familiar with the commercial real estate sector.

Pursuant to § 285 No. 10 HGB, more information on the members of the Management Board and Supervisory Board can be found in the notes to the annual financial statements of TLG IMMOBILIEN AG (pages 10, 11: *www.tlg.eu > Investor Relations > Financial reports & presentations*).

COLLABORATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory Boards work closely together to further the interests of the Company. The intensive and ongoing dialogue between the Boards is the basis for efficient and effective corporate governance. The Management Board develops the strategy of TLG IMMOBILIEN AG, coordinates it with the Supervisory Board and ensures that it is implemented.

The Management and Supervisory Boards regularly meet to discuss the implementation of the strategy. The Chairperson of the Supervisory Board is in regular contact with the Management Board and discusses matters of strategy, planning, business development, risk, risk management and compliance with it. The Management Board immediately informs the Chairperson of the Supervisory Board of any major events of significance to the analysis of the Company's situation and development and to the management of the Company and its Group companies. The Chairperson of the Supervisory Board then immediately informs the Supervisory Board and, if necessary, convenes an extraordinary Supervisory Board meeting.

The Articles of Association and the rules of procedure for the Management Board stipulate that transactions of fundamental significance require the approval of the Supervisory Board.

The members of the Management Board must immediately reveal any conflicts of interests to the Supervisory Board and their fellow Management Board members. Likewise, significant transactions between members of the Management Board or related parties and the Company require the approval of the Supervisory Board, as does the commencement of secondary employment outside of the Company.

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

COMMITTEES OF THE SUPERVISORY BOARD

In the 2016 financial year, the Supervisory Board had three committees: the presidential and nomination committee, the audit committee and the capital measures committee. Other committees can be formed if necessary.

PRESIDENTIAL AND NOMINATION COMMITTEE

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

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

The presidential and nomination committee regularly advises the Management Board on long-term succession planning.

As at March 2017, the presidential and nomination committee consisted of Mr Michael Zahn, Dr Michael Bütter and Dr Claus Nolting. The Chairperson of the Supervisory Board is also the Chairperson of the presidential and nomination committee.

AUDIT COMMITTEE

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

The audit committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if necessary, also the consolidated financial statements), i.e. it is primarily responsible for the preliminary audit of the documents of the financial statements and consolidated financial statements, the preparation of their approval/adoption and the proposed appropriation of profits by the Management Board. Furthermore, the audit committee prepares the agreements with the auditor (especially the awarding of the audit contract, the definition of focal points for the audit and the agreed fees) as well as the appointment of the auditor by the general meeting. This also involves the verification of the necessary degree of independence, in which regard the audit committee takes reasonable steps to determine and monitor the independence of the auditor. In lieu of the Supervisory Board, the audit committee approves contracts with auditors for additional consultancy services if such contracts require consent. The audit committee discusses the principles of compliance, risk documentation, risk management and the suitability and effectiveness of the internal control system with the Management Board. Four audit committee meetings are currently scheduled for the 2017 calendar year.

As at 9 March 2017, the audit committee consisted of Mr Helmut Ullrich (Chairman), Ms Elisabeth Stheeman and Dr Claus Nolting. The Chairman of the audit committee is independent and has particular knowledge and experience in the application of GAAP and internal control processes, and therefore meets the requirements of § 100 (5) clause 1 AktG). The members of the audit committee are experts in accounting and auditing, and the composition of the committee meets all independence requirements in terms of the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), as well as the recommendations of the Code.

CAPITAL MEASURES COMMITTEE

In its meeting on 10 November 2016, the Supervisory Board formed a capital measures committee. The committee advises the Management Board on transactions relating to the capital markets and grants any necessary approvals in lieu of the plenary session.

The capital measures committee consists of Mr Michael Zahn (Chairman), Dr Michael Bütter and Mr Helmut Ullrich.

MANAGEMENT BOARD COMMITTEES

The Management Board has not formed any committees. However, as a collegial body, it performs its management duties, whereby individual organisational units are assigned to each member of the Management Board.

GENERAL MEETING AND SHAREHOLDERS

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

The general meeting takes place annually, within the first eight months of the financial year. The agenda of the general meeting and the reports and documents required for the general meeting are published on the website of the Company *http://ir.tlg.eu/corporategovernance*.

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

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

OTHER MATTERS OF CORPORATE GOVERNANCE

REMUNERATION OF THE MANAGEMENT BOARD

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

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

The full remuneration report of TLG IMMOBILIEN AG for the 2016 financial year is available on the website of the Company *http://ir.tlg.eu/corporategovernance*.

REMUNERATION OF (EXECUTIVE) EMPLOYEES

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

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is set out in § 13 of the Articles of Association. In accordance with § 13, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000. The Chairperson of the Supervisory Board receives double this amount and the Vice Chairperson receives one and a half times this amount. The sum of all remuneration per member of the Supervisory Board may not exceed EUR 80,000 (excluding VAT) per calendar year.

Additionally, every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the audit committee or presidential and nomination committee of the Supervisory Board. The chairpersons of the respective committees receive double this amount. Every member of the Supervisory Board receives fixed remuneration of EUR 3,000 per financial year for each committee membership they have; committee chairpersons receive double this amount.

Additionally, every member of the Supervisory Board receives an attendance fee of EUR 1,500 every time they attend a physical meeting of the Supervisory Board or its committees in person. Expenses are reimbursed. Additionally, the Company has added the members of the Supervisory Board to a D&O group insurance policy for corporate bodies. This policy features an excess for the members of the Supervisory Board in accordance with recommendation 3.8 of the Code.

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

REPORTABLE SECURITY TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT AND SUPERVISORY BOARDS

Under Article 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), the members of the Management Board and Supervisory Board of TLG IMMOBILIEN AG, including related parties, are obliged to disclose transactions involving shares of TLG IMMOBILIEN AG or financial instruments relating to said shares immediately, or within three working days of the date of the transaction at the latest. Pursuant to Article 19 (2) of the Market Abuse Regulation, the Company immediately publishes these transactions after having been informed of them, or within three working days of the transaction at the latest. The transactions are published on the Company's website at *http://ir.tlg.eu/directors-dealings*.

COMPLIANCE AS A SIGNIFICANT MANAGERIAL RESPONSIBILITY

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

REASONABLE RISK AND OPPORTUNITY MANAGEMENT

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

More detailed information on the risk monitoring system of the Company is available in the management report: the risk management of TLG IMMOBILIEN AG is presented from page 72, strategic opportunities are described on page 81 and information on Group accounting can be found on page 100 of the notes.

COMMITTED TO TRANSPARENCY

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

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

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

FINANCIAL REPORTING

Once again, the Berlin office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed auditor and Group auditor for 2016 by the general meeting. Before the general meeting, the auditor issued a declaration that there were no business, financial, personal or other relationships between the auditor, its bodies or audit managers and the Company or the members of its bodies which could bring the independence of the auditor into question.

MORE INFORMATION

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

REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

REPORT ON THE POSITION OF THE COMPANY AND THE GROUP 2016

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

The TLG IMMOBILIEN Group (TLG IMMOBILIEN) has positioned itself as a leading specialist in commercial real estate in Berlin and the regional growth centres of Dresden, Leipzig and Rostock, as well as in Frankfurt am Main from early 2017 onwards. TLG IMMOBILIEN sees itself as an active portfolio manager and manages office and retail properties as well as seven hotels. Its portfolio strategy focuses on well-maintained properties in outstanding locations which generate sustainable rental income.

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

- Strategic 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 and property management
  TLG IMMOBILIEN covers significant links in the real estate value chain internally. Its various branches bear a decentralised responsibility for technical and commercial management of properties, including tenant relations.

- Acquisitions and sales
  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 non-strategic properties for the best possible prices.

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 in the core regions. 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 is increasingly focused on the disposal of non-strategic properties (from the 'other' asset class) as well as office and retail properties that no longer fit in with the portfolio. 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 interest 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 averge 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. On the reporting date, the Supervisory Board consisted of five members.

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND REAL ESTATE MARKETS

2.1.1 General economic situation

Economic developments in Germany in 2016 were once again characterised by solid, steady economic growth. According to the initial calculations of the Federal Statistical Office, the average real gross domestic product (GDP) in 2016 was 1.9% higher than in the previous year. It was also half a percentage point above the average of the previous ten years, which was 1.4%. Consumer spending increased by 2.5% overall and was the strongest – yet not the sole – driver of economic growth in Germany. Investments also made a significant contribution. For example, the volume of real investments in construction increased by 3.1% due in particular to significantly larger investments in residential buildings. Likewise, investments in fittings were 1.7% higher than in the previous year.

Compared to the previous year, employment rates continued to increase and with an annual average of almost 43.5 million workers in Germany in 2016, they reached their highest level since 1991. According to the first preliminary figures released by the Federal Statistical Office, in 2016 around 429,000 more people were employed than in 2015 (a 1% increase), which shows that the upwards trend that has been in effect for almost a decade has not lost momentum. Labour productivity in 2016, measured as the real GDP per person-hour, was 1.2% higher than in the previous year. Measured per working person, labour productivity increased by 0.9%.

In 2016, the real estate investment market was influenced by robust economic developments in Germany and two other major factors: monetary policies and political risks. In light of persistently low interest rates, investments in real estate remained an attractive option for investors in 2016. Although the volume of transactions over the course of the year initially hinted at a significantly weaker result than in the previous year, the highly active final quarter ensured that, according to Jones Lang LaSalle (JLL), a transaction volume of EUR 52.9 bn – and therefore the third-strongest result in a long-term comparison – was reached, which represents a decrease of just 4% from the record high in the previous year. The seven major German investment markets – Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – experienced a roughly 5% decline in the volume of transactions to EUR 29.6 bn, although at around 56% the relative share of these locations in the overall market remained constant. Although Berlin and Munich had the best turnover statistics for most of the year, Frankfurt was able to regain the lead by the end of the year. On average, the initial yields in the seven major investment markets decreased by 59 basis points to 3.56% due to the high level of demand.

2.1.2 Development of the office property market

The positive developments in Germany's economy and labour market, especially the above-average increase in employment rates in the expansive service sectors, had a significant influence on office property markets in 2016. According to JLL, in 2016 the volume of turnover of the seven main office property hubs reached a record high of around 3.9 million sqm, overtaking the exceptional result of the previous year by 9%. The five-year average was even surpassed by 24%.

According to JLL, the highest volume of turnover was once again attributable to Berlin where a total of 913,400 sqm of space was rented out; this represents an increase of 3.9% over the previous year. With turnover of 780,000 sqm and 550,000 sqm respectively, Munich and Hamburg were in second and third place.

Despite increasing completion rates, office vacancy rates fell by almost 600,000 sqm to just under 5.1 million sqm over the course of the year. This is equivalent to an aggregated vacancy rate of just 5.5%. Only Frankfurt and Düsseldorf experienced above-average vacancy rates with 9.1% and 8.1% respectively; Stuttgart had the lowest vacancy rate at 3.7%, followed by Berlin with 4.3%.

In 2016, the volume of new buildings in the top seven cities grew by almost 28% to 1.1 million sqm, yet just 190,000 sqm (or 17%) were still available by the time construction had finished. The trend of increasing rents in project developments is continuing unabated.

Combined with strong user demand, the positive developments in the office property markets caused both top and average rents to increase in 2016. With the exception of Cologne, the top rents increased in all other major real estate centres, with increases ranging from 2% in Düsseldorf and Hamburg to 13% in Berlin.

2.1.3 Development of the retail property market

According to the market research institute GfK, consumer confidence in Germany was generally positive at the end of 2016. The economic expectations of consumers improved slightly and income expectations increased significantly, even though this did not affect their willingness to make purchases which fell slightly yet remained at a high level overall. The outcome of the US presidential election has not yet had any quantifiable impact on the mood of consumers who evidently do not expect the German economy to be affected directly over the next few months.

The positive economic developments, especially the increase in consumption and the growing levels of retail turnover, created a healthy environment for the retail property market in 2016. According to JLL, with a transaction volume of EUR 12 bn or a share of 23%, retail properties were the second-largest asset class in the German commercial real estate investment market in 2016.

In 2016, the total letting turnover for German retail properties hit 487,400 sqm and was therefore around 7% lower than in the previous year. In contrast, the number of new rental agreements remained constant at 1,070 transactions. Around 180,000 sqm or 37% of the rented space was attributable to the ten largest retail locations in Germany. By the end of the year, Berlin, Frankfurt and Stuttgart had proven to be the locations with the highest levels of turnover, whereas Hamburg, Cologne and Düsseldorf failed to reach their long-term averages.

2.1.4 Development of the hotel property market

According to the Federal Statistical Office, between January and November 2016 the number of overnight stays by guest in Germany increased by 3% over the previous year to 420.2 m. This figure includes 75.2 m overnight stays by international guests (+1%) and 345.0 m overnight stays by German guests (+3%). The Federal Statistical Office expects the figure to hit a record 448 m in 2016 as a whole.

According to the German Hotel and Restaurant Association (DEHOGA), this positive trend is also reflected in the turnover of the hotel and restaurant industry. For example, between January and September 2016, hospitality businesses alone experienced real turnover growth of 2.2% over the same period in the previous year.

In light of the positive developments in the tourism sector, in 2016 BNP Paribas Real Estate recorded another increase in the volume of transactions in the hotel investment market, surpassing the EUR 5 bn mark for the first time. The annual profit of EUR 5.18 bn also represents the seventh increase in turnover in a row. With almost EUR 3.1 bn and EUR 2.1 bn respectively, individual investments and portfolios alike reached record highs. The highly active final quarter was noteworthy in this regard.

2.2 COURSE OF BUSINESS

GENERAL STATEMENT

In the 2016 financial year, TLG IMMOBILIEN was able to continue implementing its growth strategy successfully. Overall, the company surpassed the key performance indicators described in its forecast report in 2015. As a result of successful portfolio management in combination with the acquisition of high-quality properties, the portfolio of TLG IMMOBILIEN was as follows as at 31 December 2016:

Key figures	Total	Office	Retail	Hotel	Others
Property value (EUR k) [1]	2,241,615	1,004,110	896,198	272,029	69,277
Annualised in-place rent (EUR k) [2]	155,276	64,993	69,259	16,122	4,902
In-place rental yield (%)	6.9	6.5	7.7	5.8	6.9
EPRA Vacancy Rate (%)	3.8	5.2	2.4	2.4	8.0
WALT (years)	6.1	5.0	5.4	13.1	7.9
Properties (number)	404	60	278	7	59
Lettable area (sqm)	**1,418,975**	**603,644**	**597,641**	**109,482**	**108,209**

[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 2016, the property portfolio of TLG IMMOBILIEN comprised 404 properties in total (previous year 418) with a fair value (IFRS) of around EUR 2.242 bn (previous year around EUR 1.766 bn). This 26.9% increase is due primarily to the acquisitions added to the portfolio in the 2016 financial year which, with a value of EUR k 436,855, make up 19.5% of the portfolio. As a result, the fair value of the acquisitions made between 2014 and 2016 has increased to EUR k 750,490 or 33.5% in total.

As at 31 December 2016, the acquisitions made in 2016 had been allocated to the following asset classes:

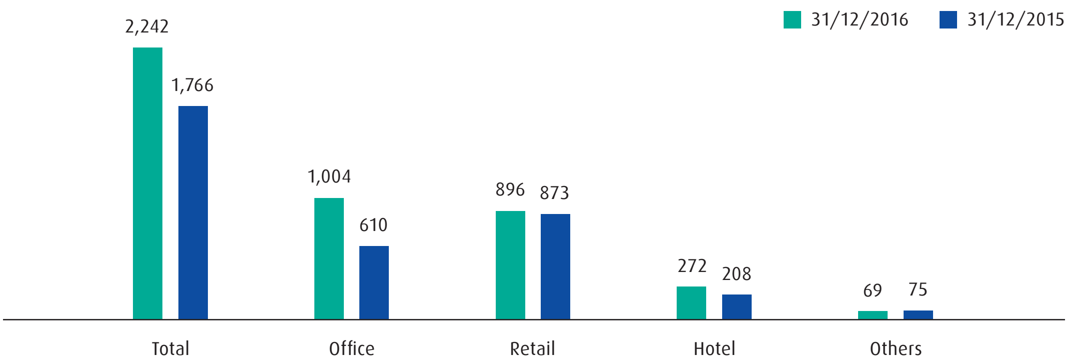
Asset class	Addition to portfolio	Address	Fair value (EUR m)[1]	Annualised in-place rent (EUR m)	WALT (years)	EPRA Vacancy Rate (%)
Office	Q4 2016	Frankfurt am Main, Lyoner Strasse 25	85.8	5.5	5.4	1.9
Office	Q4 2016	Frankfurt am Main, Olof-Palme-Strasse 35	75.0	4.3	9.0	0.0
Office	Q2 2016	Leipzig, Prager Strasse 118, 120, 126, 128, 130, 132, 134	58.3	3.3	8.4	0.3
Office	Q2 2016	Berlin, Aroser Allee 68	51.9	3.0	4.3	6.1
Office	Q4 2016	Berlin, Kapweg 3, 4, 5	30.6	0.7	6.0	58.5
Office	Q1 2016	Dresden, Am Schiesshaus 1–3	13.9	0.9	8.4	2.7
Office	Q1 2016	Stuttgart, Industriestrasse 48	12.1	0.9	1.7	1.2
Office	Q1 2016	Berlin, Kronenstrasse 5	9.5	0.4	5.1	2.2
Office	Q1 2016	Berlin, Kronenstrasse 6	8.7	0.3	4.5	4.8
Office	Q1 2016	Essen, Bismarckstrasse 36/Friedrichstrasse 12	7.0	0.6	1.6	0.0
Office	Q1 2016	Magdeburg, Grosse Diesdorfer Strasse 228–229/Schenkendorfstrasse 1	5.6	0.6	3.6	9.1
Office	Q1 2016	Chemnitz, Zwickauer Strasse 16, 16a, 16b	1.2	0.4	2.9	29.2
Office acquisitions in 2016			**359.4**	**20.9**	**6.3**	**8.7**
Retail	Q4 2016	Dresden, Merianplatz 4	20.3	1.4	3.2	1.0
Retail	Q4 2016	Dresden, Merianplatz 3	3.6	0.3	3.8	1.8
Retail acquisitions in 2016			**23.9**	**1.7**	**3.3**	**1.2**
Hotel	Q1 2016	Leipzig, Am Hallischen Tor 1/Brühl 33/ Richard-Wagner-Strasse 9	27.6	1.6	8.6	12.2
Hotel	Q1 2016	Dresden, Wiener Platz 8/9	25.9	1.7	9.1	2.6
Hotel acquisitions in 2016			**53.5**	**3.3**	**8.8**	**7.8**
Total acquisitions in 2016			**436.9**	**25.9**	**6.4**	**8.1**

[1] In line with values disclosed according to IAS 40

In the 2016 financial year, 82.3% of acquisitions were office properties followed by hotels with 12.2% and retail properties with 5.5%. By acquiring two office properties in Frankfurt am Main, TLG IMMOBILIEN has expanded its portfolio strategically into western Germany. Besides Frankfurt am Main, which with 36.8% of acquisitions accounts for the largest proportion, the majority of acquisitions were made in Berlin again (23.0%) as well as in the eastern German growth regions of Leipzig (19.7%) and Dresden (14.6%).

The fair values of the individual asset classes developed as follows:

in EUR m



Due in particular to the acquisitions made in 2016, office properties increased by 64.5% to EUR k 1,004,110 (previous year EUR k 610,219 including the reclassification of three office properties worth EUR k 3,250 from the non-core portfolio). Making up 44.8% of the value of the portfolio (previous year 34.6%), office properties are therefore the strongest asset class for the first time, followed by retail properties with 40.0% (previous year 49.5%) and hotels with 12.1% (previous year 11.8%). As the acquisitions made in 2016 focused on office properties, with a fair value of EUR k 896,198 (previous year EUR k 873,390) retail properties only experienced a moderate 2.6% increase in value. In contrast, the acquisition of two centrally located hotels in Dresden and Leipzig meant that the hotel asset class was given a 31.1% boost to EUR k 272,029 (previous year EUR k 207,565). In the other asset class, disposals in particular caused the portfolio value to decrease by 7.2% to EUR k 69,277 (previous year EUR k 74,661 less three properties worth EUR k 3,250 that were reclassified as office properties).

With regard to the portfolio as a whole, the annualised in-place rent increased by 18.2% to EUR k 155,276 in the reporting year (an increase of 1.2% on a like-for-like basis). At 3.8% (previous year 3.7%), the EPRA Vacancy Rate of the entire portfolio has remained almost constant. Although the EPRA Vacancy Rate remained low at 2.8% on a like-for-like basis, a decrease of 0.9 percentage points following a sale was balanced out by an increase of 1.1 percentage points following an acquisition. The weighted average lease term (WALT) of the temporary rental agreements decreased from 6.5 years to 6.1 years overall. On a like-for-like basis, the 0.6-year decrease in the WALT to 6.1 years was slowed slightly by new rental agreements and extensions of rental agreements.

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

2.3.1 Results of operations

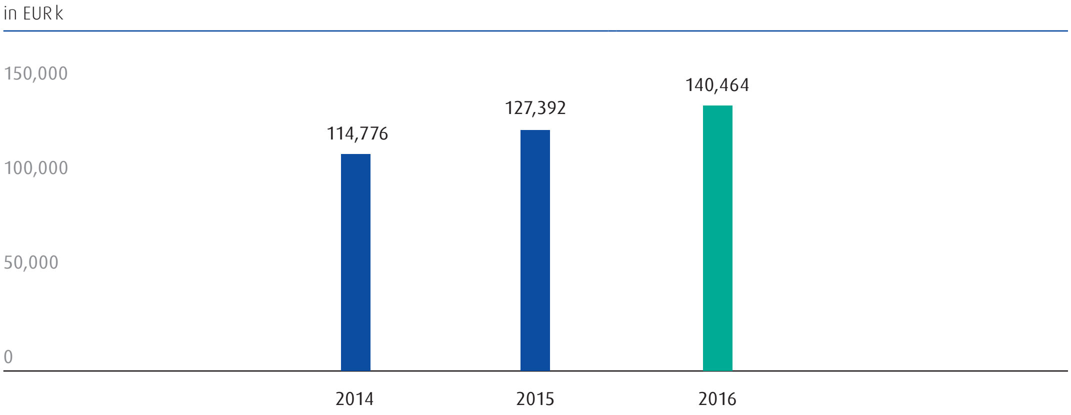
The net income of TLG IMMOBILIEN was EUR k 94,109 in the 2016 financial year. The income was EUR k 36,753 lower than in the previous year. This is due mainly to the higher gains from the remeasurement of investment property in 2015. The increase in rental income of EUR k 11,492 had a positive effect. The table below presents the results of operations:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Net operating income from letting activities [1]	**125,588**	**114,096**	**11,492**	**10.1**
Result from the remeasurement of investment property	39,860	87,856	–47,996	–54.6
Result from the disposal of investment property	6,381	7,972	–1,591	–20.0
Result from the disposal of real estate inventories	10	771	–761	–98.7
Other operating income [1]	777	4,181	–3,404	–81.4
Personnel expenses	–11,261	–12,807	1,546	–12.1
Depreciation and amortisation	–561	–760	199	–26.2
Other operating expenses [1]	–7,140	–7,881	741	–9.4
Earnings before interest and taxes (EBIT)	**153,654**	**193,426**	**–39,772**	**–20.6**
Financial income	313	443	–130	–29.3
Financial expenses	–25,650	–23,849	–1,801	7.6
Gain/loss from the remeasurement of derivative financial instruments	299	–848	1,147	n/a
Earnings before taxes	**128,616**	**169,172**	**–40,556**	**–24.0**
Income taxes	–34,507	–38,311	3,804	–9.9
Net income	**94,109**	130,862	–36,753	–28.1
Other comprehensive income (OCI)	–2,044	1,738	–3,782	n/a
Total comprehensive income	**92,065**	**132,600**	**–40,535**	**–30.6**

[1] Reclassifications of account items in the financial year caused individual values from the previous year to change (see section F of the notes).

In 2016, the net operating income from letting activities was EUR k 125,588 which represents an increase of EUR k 11,492 compared to the previous year, due in particular to the operational management of newly acquired properties. Rental income developed as follows:

Rental income



In the 2016 reporting year, the result from the remeasurement of investment property was EUR k 47,996 lower than in the same period in 2015, reaching a volume of EUR k 39,860. The measurement gains are due primarily to the favourable market conditions, primarily to Berlin and the office property asset class.

Compared to the same period in the previous year, the result from the disposal of properties decreased by a total of EUR k 2,352 to EUR k 6,391.

Other operating income was EUR k 777 and was therefore EUR k 3,404 lower than in the previous year. Essentially, it was influenced by the reversal of allowances totalling EUR k 529, which was EUR k 777 lower than in the previous year, as well as out-of-period income of EUR k 311 that was EUR k 293 lower. Additionally, the 2015 financial year included EUR k 950 in special items from insurance compensation and damages.

In the 2016 financial year, personnel expenses decreased by EUR k 1,546 to EUR k 11,261. This is due primarily to the share-based payment components according to IFRS 2 in the previous year that were linked with the IPO.

At EUR k 7,140, other operating expenses were EUR k 741 lower than in 2015. The decrease was the result of optimisations to IT and administrative costs as well as other operating expenses. The changes in consultancy and audit fees had the opposite effect.

In 2016, financial expenses increased by EUR k 1,801 to EUR k 25,650 compared to the same period in the previous year. This was due in particular to higher expenditure on interest hedges and increased other financing expenses.

In the 2016 financial year, there was income of EUR k 299 from the remeasurement of derivative financial instruments (previous year EUR k −848). In both years, the measurement gains/losses are due essentially to ineffectiveness in derivatives being used as hedging instruments and derivatives outside of a hedge.

The income taxes comprise ongoing income taxes of EUR k 5,986, items for actual income taxes of EUR k −1,577 from other periods and deferred taxes of EUR k 30,098.

EBITDA calculation

in EUR k	01/01/2016 – 31/12/2016	01.01.2015 – 31.12.2015	Change	Change in %
Net income	**94,109**	**130,862**	**−36,753**	**−28.1**
Income taxes	34,507	38,311	−3,804	−9.9
EBT	128,616	169,173	−40,557	−24.0
Net interest	25,337	23,406	1,931	8.3
Gain/loss from the remeasurement of derivative financial instruments	−299	848	−1,147	n/a
EBIT	153,654	193,427	−39,773	−20.6
Depreciation and amortisation	561	760	−199	−26.2
Result from the remeasurement of investment property	−39,860	−87,856	47,996	−54.6
EBITDA	**114,355**	**106,331**	**8,024**	**7.5**

In the 2016 financial year, TLG IMMOBILIEN generated an EBITDA of EUR k 114,355. The increase compared to the previous year was EUR k 8,024, due essentially to the higher net operating income from letting activities.

2.3.2 Financial position

Cash flow statement

Due primarily to property acquisitions, the following cash flows caused the cash and cash equivalents to decrease overall by the end of the year:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
1. Net cash flow from operating activities	**88,044**	**83,914**	**4,130**	**4.9**
2. Cash flow from investing activities	−414,107	−150,288	−263,819	175.5
3. Cash flow from financing activities	210,744	97,511	113,233	116.1
Net change in cash funds	**−115,321**	**31,137**	**−146,458**	**n/a**
Cash and cash equivalents at beginning of period	183,736	152,599	31,137	20.4
Cash and cash equivalents at end of period	**68,415**	**183,736**	**−115,321**	**−62.8**

The net cash flow from operating activities increased by EUR k 4,130 compared to 31 December 2015, totalling EUR k 88,044 as at 31 December 2016, due primarily to the increase in rental income. Income tax payments and higher interest payments had the opposite effect.

The negative cash flow from investing activities of EUR k 414,107 essentially reflected the cash paid for the acquisition of properties.

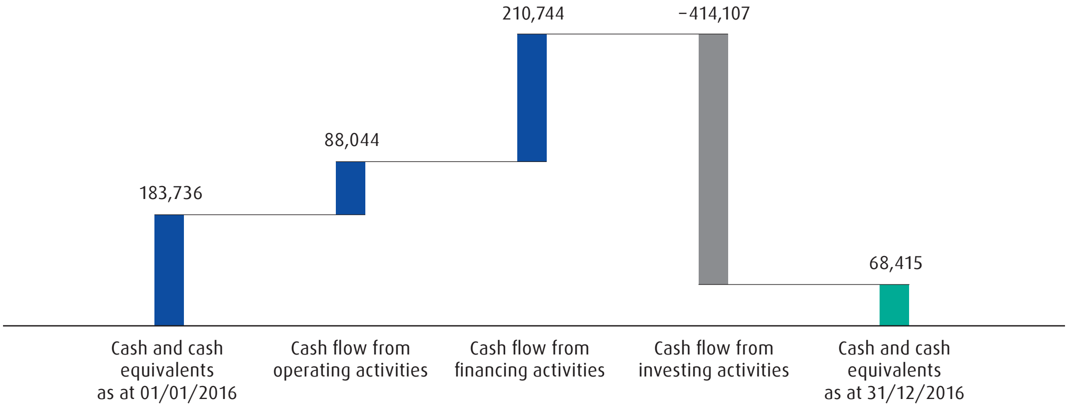
Compared to the previous year, the proceeds from the disposal of investment property decreased by EUR k 10,800 to EUR k 31,976.

The higher cash flow from financing activities is due to the EUR k 245,933 increase in loans compared to the previous period. The payment of a dividend of EUR k 48,551 to the shareholders compared to EUR k 15,236 in the previous year had the opposite effect, as did the capital increase of EUR k 100,724 carried out in 2015.

Overall, due to the aforementioned cash flows in 2016, the cash and cash equivalents decreased by EUR k 115,321 to EUR k 68,415:

Development of cash and cash equivalents

in EUR k



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

2.3.3 Net assets

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

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property/advance payments	2,215,321	1,753,746	461,575	26.3
Deferred tax assets	2,652	0	2,652	0
Other non-current assets	18,067	20,556	−2,489	−12.1
Financial assets	4,800	2,535	2,265	89.3
Cash and cash equivalents	68,415	183,736	−115,321	−62.8
Other current assets	35,508	38,888	−3,380	−8.7
Total assets	**2,344,763**	**1,999,461**	**345,302**	**17.3**
Equity	1,009,503	967,874	41,629	4.3
Non-current liabilities	1,009,406	771,914	237,492	30.8
Deferred tax liabilities	217,713	185,867	31,846	21.9
Current liabilities	108,141	73,809	34,332	46.5
Total equity and liabilities	**2,344,763**	**1,999,461**	**345,302**	**17.3**

At EUR k 2,215,321, 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 increased from 88% to 94%.

The development of investment property is the result of fair value adjustments (EUR k 39,859), acquisitions (EUR k 442,998), the capitalisation of construction activities (EUR k 18,543) and reclassifications as assets held for sale (EUR k 28,857). Reclassifications from property, plant and equipment (EUR k 3,211) also had an effect.

Cash and cash equivalents decreased by EUR k 115,321 to EUR k 68,415 in the reporting period, due primarily to property acquisitions.

The equity of the Group was EUR k 1,009,503, which represents an increase of EUR k 41,629 compared to the previous year, whereas the liabilities of the Group increased by a total of EUR k 303,670. The increase in equity is due to the net income of EUR k 94,109, whereas the payment of a dividend of EUR k 48,551 had the opposite effect.

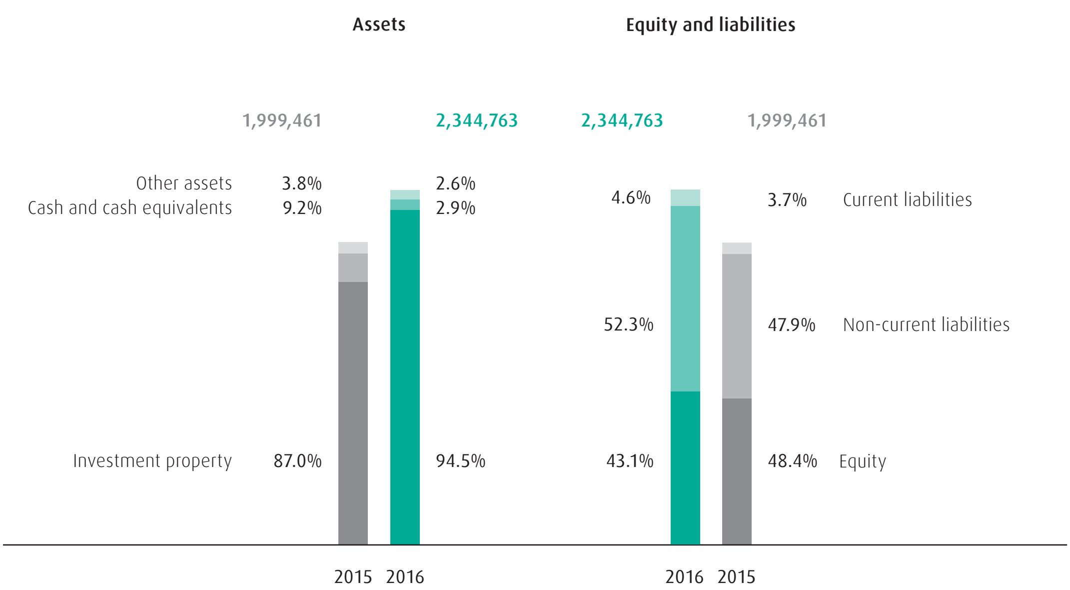
in EUR k	31/12/2016	31/12/2015	Change	Change in %
Equity	1,009,503	967,874	41,629	4.3
Total equity and liabilities	2,344,763	1,999,461	345,302	17.3
Equity ratio in %	**43.1**	**48.4**	**−5.3 pp**	

Compared to the previous year, the equity ratio decreased by 5.3 percentage points to 43.1%, due primarily to the increase in loans.

Non-current liabilities, including deferred taxes, increased by EUR k 269,338 in the 2016 financial year and represent 92% of liabilities. This is essentially due to new long-term loans that were taken out in order to finance acquisitions. Current liabilities increased by EUR k 34,332 due to loans expiring in 2017 in particular. All liabilities to financial institutions are secured by mortgages.

Structure of the consolidated statement of financial position

in EUR k



2.3.4 FFO development

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Net income	**94,109**	**130,862**	**–36,753**	**–28.1**
Income taxes	34,507	38,311	–3,804	–9.9
EBT	128,616	169,173	–40,557	–24.0
Result from the disposal of investment property[1]	–6,103	–8,088	1,985	–24.5
Result from the disposal of real estate inventories	–10	–771	761	–98.7
Result from the remeasurement of investment property	–39,860	–87,856	47,996	–54.6
Gain/loss from the remeasurement of derivative financial instruments	–299	848	–1,147	n/a
Other effects[2]	892	–1,184	2,076	n/a
FFO before taxes	83,236	72,122	11,114	15.4
Income taxes	–34,507	–38,311	3,804	–9.9
Deferred taxes	30,098	34,583	–4,485	–13.0
Correction of tax effects from transaction costs and previous period effects	–1,950	–4,407	2,457	–55.8
FFO after taxes	**76,877**	**63,987**	**12,890**	**20.1**
Average number of shares on issue (in thousands)[3]	67,432	62,041		
FFO per share in EUR	**1.14**	**1.03**	**0.11**	**10.7**

[1] Including the costs resulting from the EUR k 278 adjustment of the income from the disposal of Grimma business park, held as an investment; disclosed in the statement of comprehensive income in other operating income
[2] The other effects include
(a) the depreciation of IAS 16 property (owner-occupied property) (EUR k 145; previous year EUR k 185),
(b) income from the service contract with TAG Wohnen (EUR k 0; previous year EUR k 30),
(c) personnel restructuring expenses (EUR k 477; previous year EUR k 670),
(d) share-based payments (EUR k 0; previous year EUR k 957),
(e) the reversal of provisions for reclaimed subsidies (EUR k 404; previous year EUR k 1,317),
(f) income from insurance compensation and the payment of damages to the notary (EUR k 0; previous year EUR k 950),
(g) the reversal of the provision for liabilities arising from purchase agreements (EUR k 283; previous year EUR k 0),
(h) transaction costs (EUR k 957; previous year EUR k 0),
(i) the reversal of provisions for construction costs (EUR k 0; previous year EUR k 700).
[3] Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.

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

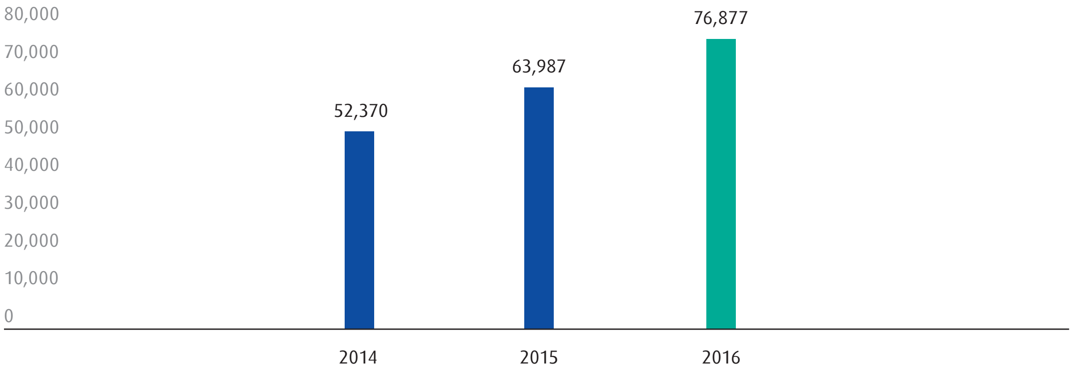
FFO is a key indicator used by companies with properties in the real estate sector to judge their long-term profitability. The figure is essentially the result of the net income for the period adjusted for the result from disposals, property measurement and the measurement of derivatives, deferred taxes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

In 2016, FFO was EUR k 76,877, which represents an increase of 20.1% or EUR k 12,890 compared to 2015. FFO per share was EUR 1.14 and therefore higher than in the same period in the previous year in spite of the increased number of shares resulting from the capital increase in November 2015.

In the 2015 annual report, TLG IMMOBILIEN predicted that its FFO in 2016 would be between EUR 71 m and EUR 73 m. This forecast was revised upwards to between EUR 74 m and EUR 76 m in the half-yearly financial report 2016. The FFO forecast for 2016 was therefore surpassed slightly. This was due to slightly higher net operating income from letting activities than expected. FFO has developed as follows compared to the last three years:

Funds from Operations (FFO)

in EUR k



The considerable increase in FFO compared to the same period in the previous year is due primarily to the higher rental income following successful acquisitions as well as successful reductions in other operating expenses.

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

Net Loan to Value (Net LTV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property (IAS 40)	2,215,228	1,739,474	475,754	27.4
Advance payments on investment property (IAS 40)	93	14,272	−14,179	−99.3
Owner-occupied property (IAS 16)	6,109	9,344	−3,235	−34.6
Non-current assets classified as held for sale (IFRS 5)	19,174	15,912	3,262	20.5
Inventories (IAS 2)	1,103	1,104	−1	−0.1
Real estate	**2,241,708**	**1,780,106**	**461,602**	**25.9**
Liabilities to financial institutions	1,040,412	782,688	257,724	32.9
Cash and cash equivalents	68,415	183,736	−115,321	−62.8
Net debt	**971,997**	**598,952**	**373,045**	**62.3**
Net Loan to Value (Net LTV) in %	**43.4**	**33.6**	**9.8 pp**	

As a ratio between net debt and real estate assets, the Net LTV is a key performance indicator for the company. FFO totalled 43.4% in the Group as at the reporting date. The long-term ceiling of 45% for the Net LTV announced most recently in the quarterly report of 30 September 2016 was adhered to. The main reason for the increase of 9.8 percentage points was the increase in new loans for acquired properties.

EPRA Net Asset Value (EPRA NAV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Equity [1]	1,009,503	965,065	44,438	4.6
Fair value adjustment of fixed assets (IAS 16)	5,327	5,572	−245	−4.4
Fair value adjustment of real estate inventories (IAS 2)	1,443	333	1,110	333.3
Fair value of derivative financial instruments	18,089	15,921	2,168	13.6
Deferred tax assets	−2,652	0	−2,652	0
Deferred tax liabilities	217,713	185,867	31,846	17.1
Goodwill	−1,164	−1,164	0	0.0
EPRA Net Asset Value (EPRA NAV)	**1,248,259**	**1,171,594**	**76,665**	**6.5**
Number of shares (in thousands)	67,432	67,432		
EPRA NAV per share (in EUR)	18.51	17.37		

[1] Adjusted for non-controlling interests in 2015

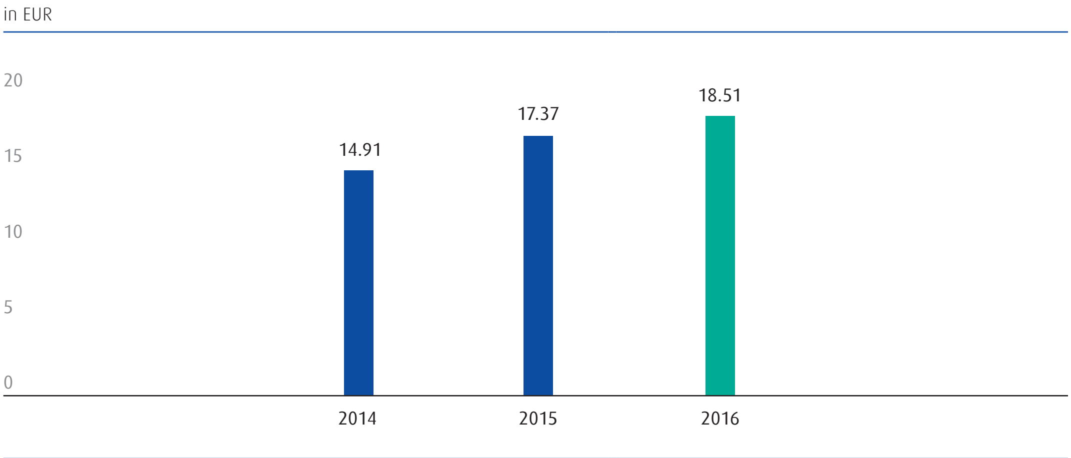
EPRA Net Asset Value (EPRA NAV) is another key performance indicator of TLG IMMOBILIEN. It discloses a net asset value on a consistent basis that can be compared with other companies.

EPRA NAV was EUR k 1,248,259 at the end of 2016, which corresponds to an EPRA NAV per share of EUR 18.51. The EPRA NAV increased by EUR k 76,665 compared to 31 December 2015.

The increase was predominantly the result of the increase in equity due in particular to the net income of EUR k 93,998, which was influenced by the positive course of business as well as the positive change in the value of the property portfolio (EUR k 39,860). The payment of a dividend of EUR k 48,551 to the shareholders had the opposite effect. The expected slightly positive development of the EPRA NAV was therefore surpassed.

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

EPRA NAV per share



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 2016, TLG IMMOBILIEN had 111 employees (previous year 122), not including trainees or inactive contracts. The reduction in the number of staff is primarily due to the restructuring of the company. The average length of service at TLG IMMOBILIEN is 13 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 2016, 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, essentially with a focus on the real estate sector.

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 the job ticket, food allowance and accident insurance.

In 2016, TLG IMMOBILIEN AG carried out an employee survey for the second time in a row. The outstanding level of participation signals the interest of the staff in continuing to help shape the development of TLG IMMOBILIEN AG. The majority of its employees see TLG 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.

TLG IMMO BILIEN traditionally maintains good long-term relationships with its tenants. This is reflected in long-term rental agreements with stable rental income. Thanks to the branches of TLG IMMOBILIEN with offices in Berlin, Dresden, Erfurt, Leipzig and Rostock, the company has outstanding regional networks. A location in Frankfurt am Main is in the pipeline. 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 EPRA European Public Real Estate Association 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 (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. RISK AND OPPORTUNITY REPORT

3.1.1 Risk management system

TLG IMMOBILIEN is exposed to constantly changing general economic, technical, political, legal and societal conditions that could impede its 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 § 317 (4) HGB.

There were no significant changes in the organisation and processes of the risk management system in 2016.

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

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

In terms of organisation and human resources, the risk management is based at the main offices of TLG IMMOBILIEN. However, the various locations, departments and subsidiaries 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

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.

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

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

Risk communication

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

The quarterly report contains information on the aggregate value at risk as well as significant risks. "Significant risks" include risks with medium or 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.

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Risk management

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

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

A scheduled audit of the risk management system was carried out in the 2016 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 real estate 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 results of operations of the Group. The risks have been separated into property-specific and company-specific risks.

Property-specific risks

Marketing 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. A marketing risk arises if planned property disposals cannot be realised. The risk manifests itself in deviations from expected income from disposals, e.g. due to a failure to conclude purchase agreements resulting from changes in the levels of supply and demand. If a disposal cannot be realised, the capital remains tied down and cannot be released for further growth, which can affect the liquidity of the company as well as its net assets, financial position and results of operations. To avoid or reduce this risk, 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. The transaction teams have at their disposal standard contracts to use as a basis for purchase contract negotiations. None of the disposals scheduled for 2016 had to be postponed by any significant period of time in the financial year. Additionally, a large-scale purchase agreement that was planned for 2015 but not realised was concluded successfully in the reporting year. As a result, the potential loss and probability of occurrence of the marketing risk have been downgraded from high in the previous year to negligible as at the reporting date.

Bad debt from sales and leasing

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

The bad debt risk of receivables from sales was rated as having a high potential loss at the end of the reporting year, although its probability of occurrence remained negligible due to the lack of contractual rescissions or insolvency on the part of purchasers so far.

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 results of operations, can arise from a loss of payments from anchor tenants or insolvency on their part. The risk of bad debt from operational management was once again rated as having a medium potential loss and a low probability of occurrence due to the positive track record of receivables over the course of the financial year. The development of receivables is evaluated on a monthly basis, its context is analysed and bad debt recovery measures are implemented, such as our employees contacting tenants directly.

Vacancy risk

The vacancy risk is when a property cannot be leased or sub-leased at a reasonable price or at all. Additionally, the risk can result from tenants reducing the scope of rent or being able to effect reductions in the rent for economic reasons. Such a development can have a negative effect on the letting situation and consequently on the planned development of the 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 all but one 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. For this reason and as in the previous year, both the potential loss and probability of occurrence have been categorised as 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 § 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 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 results of operations of the company. The potential loss of the environmental risk and the risk of contaminated sites is considered extremely high, yet the probability of occurrence is considered negligible.

Operational management

Operational management involves the risks of non-recoverable operating costs, neglected maintenance, subsidies and failure to fulfil the legal duty to maintain safety in the property.

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. Both the potential loss from corrections effected by objections and the probability of occurrence are still considered low. However, inaccuracies and errors in the annual utility invoices could occur, which could influence the satisfaction of the tenants and the results of operations of the company.

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 results of operations 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 was medium.

The regular inspections also allow TLG IMMOBILIEN to fulfil its duty to maintain safety on the premises. Given the constant inspections, prompt service and repairs and the safety inspections, the potential loss is considered negligible. The probability of occurrence is rated as medium.

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 results of operations of the company. As at 31 December 2016, this risk was considered to have a low potential loss and a medium probability of occurrence.

Investments

TLG IMMOBILIEN pursues an investment strategy which continuously optimises and increases the value of the property portfolio through attractive acquisitions, 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 will counter these risks by continuously checking the creditworthiness and reliability of construction companies and business partners and by hedging with guarantees. Preceding invitations to tender and negotiations on contractual conditions and prices are an important basis. The implementation entails extensive project management, regular inspections on site, consistent follow-up management and strict deadline management. Acquisitions are subject to a predefined framework of strategic acquisition criteria and operative implementation requirements, for example in the form of due diligence processes.

If insufficient investments are made, this can have a negative impact on the net assets, financial position and results of operations of the company as well as on its growth strategy. The probability of occurrence is 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 that problematic developments can be identified as quickly as possible. In order to reduce the measurement risk, TLG IMMOBILIEN also carries out tenant-oriented property management, performs necessary renovations and other technical measures for tenants and implements consistent portfolio optimisation in line with its strategy. In the 2016 financial year, the fair value calculation found no indications of a significant decrease in the value of the property portfolio.

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

Company-specific risks

Financing

The growth strategy of TLG IMMOBILIEN will require additional loans in future. The conditions and the availability of financing depend significantly on the changes in interest rates and the general banking and market environments. Thus, for new loans and refinancing, higher financing costs may arise for the company through rising interest rates. Likewise, if the markets in which the banks operate begin to slow down, this could make banks more cautious about providing finance or cause them to increase their rates. These changes in the general conditions could negatively affect the financial position and profit or loss of the company.

Essentially, TLG IMMOBILIEN hedges against the interest rate risk for existing bank loans by means of interest hedges. The probability of occurrence was rated high as at 31 December 2016 as in the previous year, yet the potential loss was downgraded from medium as at 31 December 2015 to negligible due to the decrease in the interest rates on which the risk assessment was based as well as more favourable rates of finance.

Some financing contracts include so-called financial covenants, whereby the bank has an extraordinary right of termination if they are not adhered to. The company covers the risk of a broken covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. For example, a broken covenant can normally be remedied by means of unscheduled repayments. No agreed covenants were broken in 2016.

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 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 results of operations of the company. In the context of the planned volume of transactions in future, the probability of occurrence of the risk was revised upwards from medium to high, yet its potential loss remained low.

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 legal requirements are not met, the potential loss of the tax risk was still considered high at the end of the financial year, although its probability of occurrence remains negligible.

Legislative risk

The business activities of TLG IMMOBILIEN are affected by changes in the legal framework and to regulations. Fundamental changes in the legal framework, e.g. in landlord and tenant legislation, can lead to financial risks or increased expenses and therefore affect the financial position and results of operations of the company. These changes could negatively affect the image, the business activities and the financial position and results of operations of the Group. Because there is no recognisable concrete and quantifiable risk from impending and/or expected legislative changes or regulations, this risk was not changed from the previous year and was classified as negligible and with a medium damage amount.

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 (e.g. due to fluctuations) 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. The potential loss and probability of occurrence of the personnel risk remain negligible.

Costs of litigation, 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. There are no foreseeable disputes in the future with a significant value in dispute. Furthermore, databases are documented in a litigation database and in a separate calendar. These deadlines are regularly monitored.

The damage amount and probability of occurrence of both risks remains unchanged and classified as negligible.

Press and image

The business activities of TLG IMMOBILIEN can be impeded by negative representations in the media to such an extent that the revenue of the company is jeopardised. This can damage the TLG IMMOBILIEN brand and lower the price of its shares. The public image of TLG IMMOBILIEN is to be strengthened and improved predominantly by means of media communication, the transparency of property transactions on the capital market 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 high.

Data and IT risks, fire/burglary/natural disasters

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. This can lead to massive disruptions in the course of business and cause unfavourable conclusions to be drawn and decisions to be made. Likewise, the data in databases are at risk of falling into the wrong hands and being misused to the detriment of TLG IMMOBILIEN. This can lead to negative effects on the business activities of the company. The risk concerns both internal confidentiality and protection against external third parties. The risk therefore concerns the entirety of the data protection regulations, both technical and organisational, as well as the general misuse of data.

In order to reduce this risk, access privileges are regularly inspected and regular plausibility checks are carried out. The company also has detailed procedures and guidelines. The IT system used for accounting purposes is audited by the auditor on an annual basis as part of the audit of the consolidated financial statements and annual financial statements. As in the previous year, the data quality risk has been rated as having a medium potential loss and a negligible probability of occurrence.

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

Internal and external offences

Internal and external offences lead directly to financial damage and/or losses through image damage. The damage ranges from damage caused by internal manipulation (e.g. fraud, embezzlement, theft of cash) to external cases of fraud such as the manipulation of sales, invitations to tender and the awarding of contracts. This also includes offences in connection with the company's position on the market (insider trading). Due to the four-eye principle which is applied to all transactions and the company's internal approval and control system, this risk is 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 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 in the form of, among others, monthly internal reporting, analysis of significant items in the statement of profit or loss, the statement of financial position and budget checks are carried out.

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 four-eye 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 Group's holistic accounting, account assignment and valuation guidelines are inspected and updated regularly.

The Group auditing department is an independent organisational unit and 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. In accordance with this guideline, 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. If possible, a hedge is recognised in the statement of financial position.

For the purpose of risk monitoring and limitation, the market values of all interest 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.

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 2016 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 or 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

TLG IMMOBILIEN has a strong, highly diversified portfolio on the property market in eastern Germany and now also in areas of western Germany, primarily due to the expertise of its employees, their years of experience, their sound know-how and their constant focus on the customer. As an active portfolio manager, the company has an excellent network in the property market alongside decades of market experience, which enables it to assess the market with a high degree of reliability. This way, TLG IMMOBILIEN is able to quickly identify when third parties are potentially planning transactions, which can serve to improve its own chances of making an acquisition.

Due to the persistently low interest rates, new financing and refinancing opportunities alike are available at favourable rates. When we acquire properties, new financial instruments will allow us to react with flexibility in line with our growth strategy.

Besides these activities, the consistent testing and improvement of internal processes and structures will both increase opportunities and save costs.

With regard to renting, the company's many years of regional market expertise can open up new opportunities to acquire vacant space in future. The long-term rental agreements in the portfolio of TLG IMMOBILIEN have an average remaining term of approx. 6.1 years. Increasing consumer prices could have a positive effect on rental income as index adjustments are normally contractual components of the rental agreements.

Furthermore, some land could potentially be developed with building expansions or new buildings to add more space, which would increase the net operating income from letting activities of TLG IMMOBILIEN. Likewise, specific modernisation measures and renovations for tenants in the portfolio are improving customer satisfaction and tying tenants to properties for longer.

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

With regard to the economic developments in Germany and the resulting effects on the real estate investment market, it remains to be seen to what extent the changes in the foreign and monetary policies of the new government in the USA and the upcoming withdrawal of the UK from the EU will have an effect. The German government expects the GDP to grow by 1.4% in 2017 and by 1.6% in 2018, based on the fact that the global economy remains beset by difficulties and that many aspects of the impact of the Brexit vote remain unpredictable. Jones Lang LaSalle (JLL) expects the upward trend in prices in the real estate investment market to slow to 7% in 2017. Investors will be more focused on growth in rents and a realistic assessment of the potential for growth.

Office property market

JLL expects the building completion volume to be a little over 1 million sqm in 2017. In light of the slightly higher yet still moderate construction pipeline, JLL expects rents to remain under pressure and increases of 3% in the top segment in 2017. The average rents are also expected to increase further. Vacancy rates are expected to fall again by up to 0.3 percentage points.

Retail property market

According to Savills, demand for selling space in the retail segment is changing, which means that increasingly small volumes of space will be in demand in future. This is due to the ongoing structural upheaval in the retail segment and the transition of turnover from stationary shops to online retail. Locations with the highest passer-by frequencies and neighbourhood shopping centres in close proximity to residential areas will be highest in demand amongst retailers in future.

Hotel property market

Given the record high in the hotel property transaction market in 2016, the experts at BNP Paribas Real Estate are finding it increasingly difficult to draw up a forecast for 2017. Fundamentally, investor demand remains high, yet in spite of healthy levels of construction activity the supply is insufficient and the volume of transactions in 2016 was influenced by a number of major sales. Nevertheless, an annual transaction volume of at least EUR 4 bn should be achievable in 2017 as well.

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 events occur, the company expects the property-related expenses that are to be borne by the owner to develop in a similar way to rental income in 2016.

As an active portfolio manager, in 2017 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 2017. In 2017, 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% in the long term (2016: 43.4%).

With consideration for the acquisitions that have been made so far, TLG IMMOBILIEN expects funds from operations of between EUR 84 m and EUR 86 m (2016: EUR 76.9 m) in the 2017 financial year. This will allow for the distribution of an attractive dividend to the shareholders. Potential acquisitions in 2017 might also increase FFO for 2017.

TLG IMMOBILIEN expects the EPRA Net Asset Value, which is mostly influenced by the value of the property portfolio, to increase slightly by the end of the 2017 financial year. This is contingent on the company not incurring any major unforeseen expenses.

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

The declaration on corporate compliance to be issued pursuant to § 289a and § 315 (5) HGB and the corporate governance report are available online at *http://ir.tlg.eu/corporategovernance*. Pursuant to § 317 (2) line 4 HGB, the disclosures under § 289a and § 315 (5) HGB are not included in the audit carried out by the auditor.

4.2 PROPORTION OF WOMEN

Following the entry into force of the German act on equal participation of women and men in executive positions in the private and the 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 § 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.

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 2017. Both members of the Management Board are male.

In line with § 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 maximum duration of the deadlines, the first deadline to be set may not extend beyond 30 June 2017.

In its meeting on 30 September 2015, the Management Board decided the following:

In line with § 76 (4) AktG, the minimum proportion of women on the first management level below the Management Board is 11.11% 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 2017.

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 2015 in its meeting on 29 April 2015 and for 2016 in its meeting on 29 March 2016.

in EUR k	Peter Finkbeiner	Niclas Karoff
Basic 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 predefined additional benefits.[1] Furthermore, the company has taken out industrial accident insurance which pays 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

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.

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 Chairman, 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.

[1] Essentially the non-cash benefit of private use of the company car as well as payments for a dual household that is necessary for business reasons

Long-term incentive

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 towards the targets.

The key parameters for the long-term incentive are the performance of the EPRA NAV (per share and in EUR) – 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 of the Management Board in 2016 and 2015

For successfully disposing of all of the shares of the former shareholders LSREF II East AcquiCo S.à r.l. and Delpheast Beteiligungs GmbH & Co. KG in 2015, each member of the Management Board received shares worth EUR 1.16 m.

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In the 2016 and 2015 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received	Peter Finkbeiner		Niclas Karoff	
in EUR k	2016	2015	2016	2015
Fixed remuneration	300	300	300	300
Fringe benefits	86	82	27	25
SUBTOTAL of fixed remuneration	**386**	**382**	**327**	**325**
Bonus[1]	0	1,163	0	1,163
Short-term variable remuneration (STI)	260	200	260	200
Subtotal of variable remuneration	**260**	**1,363**	**260**	**1,363**
Total remuneration	**646**	**1,745**	**587**	**1,688**

[1] The bonus for the full sale of the shares was paid by the shareholders of TLG IMMOBILIEN AG.

Bonuses paid	Peter Finkbeiner				Niclas Karoff			
in EUR k	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015
Fixed remuneration	300	300	300	300	300	300	300	300
Fringe benefits	86	86	86	82	27	27	27	25
Subtotal Fixed remuneration	**386**	**386**	**386**	**382**	**327**	**327**	**327**	**325**
Short-term variable remuneration (STI)	200	0	260	200	200	0	260	200
Long-term variable remuneration (LTI)	299	0	625	387	299	0	625	387
Subtotal of variable remuneration	**499**	**0**	**885**	**587**	**499**	**0**	**885**	**587**
Total remuneration	**885**	**386**	**1,271**	**969**	**826**	**327**	**1,212**	**912**

Total earnings from the company according to the German Commercial Code (HGB)	Peter Finkbeiner		Niclas Karoff	
in EUR k	2016	2015	2016	2015
Fixed remuneration	300	300	300	300
Fringe benefits	86	82	27	25
Subtotal of fixed remuneration	**386**	**382**	**327**	**325**
Short-term variable remuneration (STI)	260	200	260	200
Total remuneration	**646**	**582**	**587**	**525**

Current pensions were paid to two former managing directors in 2015 and 2016. The expenses totalled EUR 0.2 m in 2015 and EUR 0.2 m in 2016.

Payments in the event of premature termination of employment

Severance packages

If the contract of a member of the Management Board is terminated prematurely, payments to that member of the Management Board may not exceed the value of two years' worth of remuneration (the severance payment cap) or the value of the remuneration for the remaining term of the contract. The severance payment 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 severance payment 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.

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 part of the financial year will receive proportional remuneration for that financial year.

Mr Alexander Heße, Vice Chairman of the Supervisory Board, resigned from his position on the Supervisory Board on 31 May 2016 and did not claim any remuneration for 2016.

The members of the Supervisory Board receive fixed basic annual remuneration of EUR k 30. The Chairman of the Supervisory Board (Mr Michael Zahn) receives 200% of this amount (EUR k 60). Members of the presidential and nomination committee (Dr Michael Bütter) or the audit committee (Ms Elisabeth Stheeman, Dr Claus Nolting) receive fixed basic annual remuneration of EUR k 5. The Chairman of each committee (Mr Michael Zahn for the presidential and nomination committee and Mr Helmut Ullrich for the audit committee) receives 200% of this amount (EUR k 10).

Supervisory Board remuneration in detail
Remuneration paid or to be paid to the members of the Supervisory Board for the 2016 financial year:

in EUR k	Supervisory Board	Presidential and nomination committee	Audit committee	Capital measures committee	Attendance fees	VAT	Total
Michael Zahn	60,000.00	10,000.00	0.00	1,000.00	7,500.00	14,915.00	93,415.00
Alexander Heße	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Helmut Ullrich	30,000.00	0.00	10,000.00	500.00	7,500.00	9,120.00	57,120.00
Elisabeth Stheeman	30,000.00	0.00	5,000.00	0.00	7,500.00	0.00	42,500.00
Dr Michael Bütter	30,000.00	5,000.00	0.00	500.00	9,000.00	8,455.00	52,955.00
Dr Claus Nolting	30,000.00	0.00	5,000.00	0.00	6,000.00	7,790.00	48,790.00

In the 2016 financial year, Mr Heße waived his claim to remuneration for work on the Supervisory Board.

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

5. DISCLOSURES RELEVANT TO ACQUISITIONS

5.1 COMPOSITION OF SUBSCRIBED CAPITAL

As at 31 December 2016, the share capital was EUR 67,432,326.00, comprised of 67,432,326 no-par bearer shares with a value of EUR 1.00 per share The share capital is fully paid in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the annual 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 in writing on 24 July 2015, the Government of Singapore Investment Corporation, Singapore, holds 13.33% of the voting rights in the company in total. The total number of voting rights on this date was 61,302,326. The number of voting rights reported to the company by the Government of Singapore Investment Corporation for 24 July 2015 would be equivalent to 12.12% of the total number of voting rights as at 31 December 2016. 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 § 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 general assembly on 31 May 2016 and with the consent of the Supervisory Board, the Management Board was authorised to increase the share capital of the company by up to EUR 9,195,000.00 in exchange for cash contributions (authorised capital 2016) by issuing up to 9,195,000 new shares by 30 May 2021.

Furthermore, with the consent of the Supervisory Board the Management Board is authorised to increase the share capital of the company by up to EUR 24,521,163.00 in exchange for cash contributions and/or contributions in kind (remaining authorised capital 2014/II pursuant to the resolution of the general meeting of 22 October 2014) by issuing up to 24,521,163 new shares by 21 October 2019. The shareholders must always be granted subscription rights, although the subscription rights of the shareholders can be excluded under the conditions of the approved capital 2016 and the remaining authorised capital 2014/II.

Furthermore, the share capital has been conditionally increased by up to EUR 33,716,163.00 by the issuance of up to 33,716,163 new shares (contingent capital 2016). The contingent capital increase will enable the company to issue shares to the creditors of any convertible bonds or similar instruments that might be issued by 30 May 2021.

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 annual 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 § 186 (3) line 4 AktG.

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

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

The contracts of the members of the Management Board 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 settlement cap provided for by the Code.

6. RESPONSIBILITY STATEMENT REQUIRED BY § 264 (2) LINE 3 HGB, § 289 (1) LINE 5 HGB AND § 315 (1) LINE 6 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 results of operations 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, 10 February 2017

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 AG are based on the following pillars:

- Strategic portfolio management
- Asset and property management
- Acquisitions and disposals

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 in the core regions. 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 is increasingly focused on the disposal of non-strategic properties (from the "other" asset class) as well as office and retail properties that no longer fit in with the portfolio.

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

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

7.1 SEPARATE FINANCIAL STATEMENTS – RESULTS OF OPERATIONS

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

	01/2016 – 12/2016		01/2015 – 12/2015		Change	
in TEUR	EUR m	%	EUR m	%	EUR m	%
Revenue	186.2	99	180.0	99	6.2	3
Change in portfolio	2.3	1	1.0	1	1.3	134
Total	**188.5**	**100**	**181.0**	**100**	**7.5**	**4**
Operating expenses	136.1	72	109.2	60	26.9	25
Operating profit	**52.4**	**28**	**71.8**	**40**	**−19.4**	**−27**
Income from investments	3.3		4.7		−1.4	−30
Financial result	-26.8		−23.7		−3.1	13
Other operative effects	2.0		2.7		−0.7	−24
Operative result	**30.9**		**55.5**		**−24.6**	**−44**
Non-operative result	4.0		22.9		−18.9	−83
Earnings before taxes	**34.9**		**78.4**		**−43.5**	**−55**
Income taxes	4.9		10.1		−5.2	−51
Annual profit	**30.0**		**68.3**		**−38.3**	**−56**

In the 2016 financial year, the company generated an annual profit of EUR 30.0 m, which is in line with the forecast in the Annual Report 2015. Despite increased revenue, the change in net income compared to the previous year was mainly the result of significantly higher operating expenses and lower non-operative result.

The increase in revenue was due primarily to higher revenue from operational management (increase of EUR 16.8 m). The change was brought about by the acquisitions made in late 2015 and early 2016 in particular. The decrease in net income from disposals (EUR −10.9 m) was therefore balanced out.

Operating expenses increased by EUR 26.9 m compared to the previous year, due primarily to higher depreciation and amortisation, significantly higher write-downs and higher maintenance measures. The expenses related to letting activities are consistent with the change in revenue from operational management.

Operating profits decreased by EUR 19.4 m compared to the previous year due to the lower proceeds of EUR 10.3 m (previous year EUR 29.0 m) from disposals of properties.

Financing costs increased by EUR 3.1 m in the 2016 financial year and are attributable to the significantly larger property portfolio and the financing it requires.

Interest rate derivatives safeguard the interest rate of loans that have been taken out. They were measured using the mark-to-market method and are recognised as a hedge. As at the reporting date, the current cash flows from the underlying and hedge transactions almost completely balanced each other out. As at the reporting date, the reserve for impending losses due to ineffectiveness totalled EUR 2.0 m. The dollar offset method is used to measure the effectiveness of the hedge.

Due to the significantly lower margin produced by offsetting appreciation against write-downs of property, the non-operative result decreased to EUR 4.0 m (previous year EUR 22.9 m).

The income taxes (EUR 4.9 m) comprise ongoing income taxes (EUR 5.4 m), tax revenue from previous periods (EUR 1.5 m) and deferred tax liabilities in 2016 (EUR 1.0 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:

	01/2016 – 12/2016 EUR m	01/2015 – 12/2015 EUR m	Change EUR m
Cash flow from operating activities	72.2	84.0	−11.8
Cash flow from investing activities	−399.6	−152.5	−247.1
Cash flow from financing activities	210.8	97.5	113.3
Change in cash funds	−116.6	29.0	−145.6
Cash and cash equivalents at beginning of period	180.4	151.4	29.0
Cash and cash equivalents at end of period	**63.8**	**180.4**	**−116.6**

The cash flow from operating activities was EUR 72.2 m in 2016, and therefore EUR 11.8 m lower than in the previous year. This was due primarily to significantly higher interest and tax payments in 2016. The higher revenue was offset by higher disbursements for maintenance measures.

The increase in the negative cash flow from investing activities of EUR 247.1 m to EUR 399.6 m essentially reflects investments in new and existing properties totalling EUR 246.2 m and in shareholdings totalling EUR 191.4 m. The investments in properties and shareholdings were therefore EUR 229.4 m higher than in the previous year.

The proceeds from the disposal of properties decreased by EUR 11.6 m due to a lower volume of disposals.

The significantly higher cash flow from financing activities is due primarily to the new loan of EUR 292.5 m taken out in 2016 as well as the payment of a larger dividend of EUR 48.6 m in the 2016 financial year (previous year EUR 15.3 m).

Overall, due to the aforementioned items the cash and cash equivalents decreased by EUR 116.6 m. The 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 (receivables and liabilities due in more than one year are treated as non-current):

	31/12/2016		31/12/2015		Change	
	EUR m	%	EUR m	%	EUR m	%
Assets	1,721.6	94.6	1,356.6	85.9	365.0	26.9
Non-current receivables	0.2	0.0	0.2	0.0	0.0	0.0
Inventories	20.4	1.1	18.7	1.2	1.7	9.1
Current receivables	6.6	0.4	15.6	1.0	−9.0	−57.7
Cash and cash equivalents	63.8	3.5	180.4	11.4	−116.6	−64.6
Other assets	6.5	0.4	7.1	0.4	−0.6	−8.5
Total assets	**1,819.1**	**100.0**	**1,578.5**	**100.0**	**240.6**	**15.2**
Equity*	650.6	35.8	670.2	42.5	−19.6	−2.9
Non-current liabilities	1,039.8	57.2	810.8	51.4	229.0	28.2
Current liabilities	128.7	7.1	97.4	6.2	31.3	32.1
Total equity and liabilities	**1,819.1**	**100.0**	**1,578.5**	**100.0**	**240.6**	**15.2**

* Including the special item for investment subsidies and grants in the amount of EUR 11.6 m (previous year EUR 12.7 m)

The asset side is dominated by fixed assets. The carrying amount of the fixed assets increased by EUR 365.0 m to EUR 1,721.6 m.

In the 2016 financial year, EUR 437.6 m was spent on investments in properties and additions to the fixed assets through the acquisition of properties, which stood in contrast to write-downs of EUR 21.4 m due to the disposal of properties. Depreciation and amortisation (EUR 46.0 m) also took place. In the reporting year, appreciation due to reversals of write-downs totalled EUR 2.1 m, offset against unscheduled depreciation, and were based on the current value of the real estate market.

The current receivables had decreased by EUR 9.0 m as at the reporting date, due primarily to receivables from the disposal of properties.

Compared to the previous year, cash and cash equivalents decreased by EUR 116.6 m. The change is the result of the disclosures on financial position according to GAAP.

Including the special item for investment subsidies and grants, the finance of TLG IMMOBILIEN AG consists of 35.8% equity (previous year 42.5%) and 57.2% long-term debt (previous year 51.4%), with the remainder consisting of short-term debt.

Non-current liabilities increased by EUR 229.0 m compared to 2015 due primarily to the increase in liabilities to financial institutions.

The liabilities to financial institutions have a medium to long-term maturity structure. Therefore, of the non-current liabilities to financial institutions, EUR 527.4 m is due within one to five years, whereas EUR 451.6 m is due from 2022. The other non-current liabilities concern the pension provisions of EUR 5.7 m and non-current other liabilities of EUR 1.0 m.

Furthermore, the non-current liabilities contain deferred tax liabilities of EUR 54.2 m.

7.4 SEPARATE FINANCIAL STATEMENTS – RISKS AND OPPORTUNITIES

TLG IMMOBILIEN AG has a dominant weight within the Group. It therefore faces the same risks and opportunities 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 net income in 2017 to be slightly higher than in 2016.

Berlin, 10 February 2017

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2016

iin EUR k	Reference	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015 [1]
Net operating income from letting activities	F.1	**125,588**	**114,096**
Income from letting activities		168,062	152,280
a) Rental income		140,464	127,392
b) Income from recharged operating costs		23,662	23,330
c) Income from other goods and services		3,936	1,558
Expenses relating to letting activities		–42,474	–38,184
d) Expenses from operating costs		–29,979	–29,528
e) Maintenance expenses		–6,618	–6,198
f) Other services		–5,877	–2,458
Result from the remeasurement of investment property	**F.2**	**39,860**	**87,856**
Result from the disposal of investment property	**F.2**	**6,381**	**7,972**
Result from the disposal of real estate inventories		**10**	**771**
a) Proceeds from the disposal of real estate inventories		11	848
b) Carrying amount of inventory disposed		–1	–77
Other operating income	F.3	777	4,181
Personnel expenses	F.4	–11,261	–12,807
Depreciation and amortisation	F.5	–561	–760
Other operating expenses	F.6	–7,140	–7,881
Earnings before interest and taxes (EBIT)		**153,654**	**193,426**
Financial income	F.7	313	443
Financial expenses	F.7	–25,650	–23,849
Gain/loss (–) from the remeasurement of financial instruments	F.8	299	–848
Earnings before taxes		128,616	169,172
Income taxes	F.9	–34,507	–38,311
Net income		**94,109**	**130,862**
Other comprehensive income:	**E.9**		
thereof non-recycling			
Actuarial gains/losses after taxes		–263	28
thereof will be reclassified to profit or loss			
Gain/loss from remeasurement of derivative financial instruments in hedging relationship, net of taxes		–1,781	1,703
Total comprehensive income for the year		**92,065**	**132,600**
Of the consolidated net income for the period, the following is attributable to:			
Non-controlling interests		111	242
The shareholders of the parent company		93,998	130,620
Earnings per share (basic) in EUR	**F.10**	**1.39**	**2.11**
Earnings per share (diluted) in EUR	**F.10**	**1.39**	**2.10**
Of the total comprehensive income for the year, the following is attributable to:			
Non-controlling interests		111	242
The shareholders of the parent company		91,954	132,358

[1] Comparative figures from previous year have been adjusted. Please see section F.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

Assets

in EUR k	Reference	31/12/2016	31/12/2015
A) Non-current assets		**2,240,840**	**1,776,837**
Investment property	E.1	2,215,228	1,739,474
Advance payments on investment property		93	14,272
Property, plant and equipment	E.2	6,672	9,827
Intangible assets	E.2	1,413	1,566
Other non-current financial assets	E.3	4,800	2,535
Other assets	E.5	9,982	9,163
Deferred tax assets	E.13	2,652	0
B) Current assets		**103,923**	**222,624**
Inventories	E.6	1,103	1,104
Trade receivables	E.4	5,997	11,911
Receivables from income taxes	E.13	1,239	2,195
Other current financial assets	E.3	864	883
Other receivables and assets	E.5	7,131	6,883
Cash and cash equivalents	E.7	68,415	183,736
Assets classified as held for sale	E.8	19,174	15,912
Total assets		**2,344,763**	**1,999,461**

Equity and liabilities

in EUR k	Reference	31/12/2016	31/12/2015
A) Equity	**E.9**	**1,009,503**	**967,874**
Subscribed capital		67,432	67,432
Capital reserves		440,267	439,510
Retained earnings		515,094	469,369
Other reserves		−13,290	−11,246
Equity attributable to the shareholders of the parent company		1,009,503	965,065
Non-controlling interests		0	2,809
B) Liabilities		**1,335,260**	**1,031,590**
I.) Non-current liabilities		**1,227,119**	**957,781**
Non-current liabilities to financial institutions	E.10	975,164	746,677
Pension provisions	E.11	8,347	8,080
Non-current derivative financial instruments	H.1	20,370	15,921
Other non-current liabilities	E.14	5,525	1,236
Deferred tax liabilities	E.13	217,713	185,867
II.) Current liabilities		**108,141**	**73,809**
Current liabilities due to financial institutions	E.10	65,248	36,011
Trade payables	E.14	21,178	14,926
Other current provisions	E.12	1,828	2,416
Tax liabilities		4,512	6,415
Other current liabilities	E.14	15,375	14,041
Total equity and liabilities		**2,344,763**	**1,999,461**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2016

in EUR k	Reference	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
1. Cash flow from operating activities			
Net income before taxes		128,616	169,173
Depreciation of property, plant and equipment and amortisation of intangible assets	E.2	561	760
Result from marking investment property to market	F.2	–39,860	–87,856
Gain/loss from the remeasurement of derivative financial instruments	F.8	–299	848
Increase/decrease (–) in provisions	E. 12	–321	–3,436
Other non-cash income/expenses		757	1,794
Gain (–)/loss from disposal of property, plant and equipment and intangible assets		–6,382	–8,268
Increase (–)/decrease in inventories	E. 6	1	373
Financial income	F.7	–313	–443
Financial expenses	F.7	25,650	23,849
Increase (–)/decrease in trade receivables and other assets	E. 4/5	4,964	10,074
Increase/decrease (–) in trade payables and other liabilities		8,082	–1,992
Cash flow from operating activities		**121,455**	**104,875**
Interest received		255	443
Interest paid		–28,413	–22,987
Income tax paid/received		–5,253	1,583
Net cash flow from operating activities		**88,044**	**83,914**
2. Cash flow from investing activities			
Cash received from disposals of investment property	G.	**31,976**	**42,776**
Proceeds from disposals of property, plant and equipment		210	419
Cash paid for acquisitions of investment property	E.1	–445,621	–205,839
Cash paid for acquisitions of property, plant and equipment		**–537**	–253
Cash paid for investments in intangible assets		**-136**	–195
Cash received from disposals of consolidated companies and other business units		0	12,804
Cash flow from investing activities		**–414,107**	**–150,288**
3. Cash flow from financing activities			
Cash received from equity contributions	E.9	0	100,724
Dividend payment	E.9	–48,551	–15,326
Cash distribution to non-controlling interests		–119	0
Cash received from bank loans	E. 10	292,500	46,567
Repayments of bank loans	E. 10	–33,086	–34,453
Cash flow from financing activities		**210,744**	**97,511**
4. Cash and cash equivalents at end of period			
Net change in cash and cash equivalents (subtotal of 1–3)		**–115,321**	31,137
Cash and cash equivalents at beginning of period		183,736	152,599
Cash and cash equivalents at end of period		**68,415**	**183,736**
5. Composition of cash and cash equivalents			
Cash		68,415	183,736
Cash and cash equivalents at end of period		**68,415**	**183,736**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2016

in EUR k	Subscribed capital	Capital reserves	Retained earnings	Other comprehensive income: Reserve hedge accounting	Other comprehensive income: Actuarial gains/ losses	Non-controlling interests	Equity
01/01/2015	**61,302**	**343,003**	**354,074**	**−11,050**	**−1,934**	**2,569**	**747,963**
Net income	0	0	130,620	0	0	242	130,862
Other comprehensive income (OCI)	0	0	0	1,703	28	0	1,738
Total comprehensive income for the year	**0**	**0**	**130,620**	**1,703**	**28**	**242**	**132,600**
Adjustment for non-controlling interests	0	0	0	0	0	−3	−3
Change in scope of consolidation	0	−200	0	0	0	0	−200
Dividend payment	0	0	−15,326	0	0	0	−15,326
Share capital increase	6,130	95,628	0	0	0	0	101,758
Transaction costs associated with the share capital increase, after taxes	0	−717	0	0	0	0	−717
Capital contribution in connection with share-based remuneration	0	1,796	0	0	0	0	1,796
Change during the period	**6,130**	**96,507**	**115,294**	**1,703**	**28**	**240**	**219,910**
31/12/2015	**67,432**	**439,510**	**469,369**	**−9,347**	**−1,899**	**2,809**	**967,874**
01/01/2016	**67,432**	**439,510**	**469,369**	**−9,347**	**−1,899**	**2,809**	**967,874**
Net income	0	0	93,998	0	0	111	94,109
Other comprehensive income (OCI)	0	0	0	−1,781	−263	0	−2,044
Total comprehensive income for the year	**0**	**0**	**93,998**	**−1,781**	**−263**	**111**	**92,065**
Adjustment for non-controlling interests	0	0	278	0	0	−2,920	−2,642
Dividend payment	0	0	−48,551	0	0	0	−48,551
Capital contribution in connection with share-based remuneration	0	757	0	0	0	0	757
Change during the period	**0**	**757**	**45,725**	**−1,781**	**−263**	**−2,809**	**41,629**
31/12/2016	**67,432**	**440,267**	**515,094**	**−11,128**	**−2,162**	**0**	**1,009,503**

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

A.1 INFORMATION ON THE COMPANY

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

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

Due to the given proportions of the Group companies, the prepared consolidated financial statements are significantly influenced by TLG IMMOBILIEN AG.

A.2 PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The currency of the consolidated financial statements is the euro.

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

The financial statements of TLG IMMOBILIEN AG and its fully consolidated subsidiaries form the basis of the consolidated financial statements prepared for the 2016 financial year. The financial statements of the subsidiaries are prepared using uniform accounting and measurement methods as at the same reporting date as the financial statements of the parent company. The consolidated financial statements were prepared by the Management Board by 10 February 2017. The Supervisory Board is expected to approve the consolidated financial statements at its meeting on 7 March 2017.

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

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

B. NEW ACCOUNTING STANDARDS

B.1 PUBLISHED IFRS WHOSE APPLICATION IS NOT YET OBLIGATORY

IFRS 9 – FINANCIAL INSTRUMENTS

The International Accounting Standards Board published the final version of IFRS 9 (Financial Instruments) in July 2014.

IFRS 9 introduces a standardised approach to the classification and measurement of financial assets. The standard uses cash flow characteristics and the business model by which they are managed as a basis. It also provides for a new impairment model based on expected credit losses. Additionally, IFRS 9 contains new hedge accounting regulations so as to better disclose the risk management activities of a company, especially with regard to the management of non-financial risks.

IFRS 9 becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2018, although early adoption is permitted.

The Group currently intends to apply IFRS 9 from 1 January 2018. Following a preliminary assessment, the company does not expect any significant changes. However, the specific effects are still being analysed.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

IFRS 15 becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2018, although it is also acceptable to apply it earlier. The Group currently intends to apply IFRS 15 from 1 January 2018.

The Group has carried out an initial assessment of the potential effects of applying IFRS 15 on its consolidated financial statements and currently expects the financial statements to experience negligible changes with regard to variable revenue (turnover rent, conditional purchase price, etc.).

IFRS 16 – LEASES

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

IFRS 16 replaces the previous classification of leases by lessors as operating or finance. Instead, IFRS 16 introduces a single lessee accounting model requiring lessees to recognise assets (for the right of use) and liabilities for all leases unless the lease term is 12 months or less. This means that leases which were not previously recognised must now be recognised in a statement of financial position – largely similar to the current recognition of financial leases. The approach to lessor accounting of this standard is substantially unchanged, which means that lessors continue to classify leases as operating or finance.

The standard applies to the first reporting period of a financial year beginning on or after 1 January 2019. Entities may early adopt the standard if they also apply IFRS 15 (Revenue from Contracts with Customers) from or before the first application of IFRS 16. The Group intends to apply the standard from 1 January 2019 onwards.

Following a preliminary assessment taking its existing agreements as a lessee into account, the company does not expect any significant changes.

ANNUAL IMPROVEMENTS TO THE IFRS (CYCLE 2012–2014)

The annual improvements to the IFRS (cycle 2012–2014) resulted in amendments to the IFRS; however, these will have no effect on the consolidated financial statements.

C. PRINCIPLES OF CONSOLIDATION

C.1 METHODS OF CONSOLIDATION

Subsidiaries

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

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

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

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

Inclusion in the consolidated financial statements ends as soon as the Parent Company no longer has control.

The financial statements of the subsidiary are prepared using uniform accounting and valuation methods as the financial statements of TLG IMMOBILIEN AG.

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

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

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

For the shareholding list, please see section H.14.

C.2 CHANGES IN THE GROUP

Number of fully consolidated subsidiaries

	2016	2015
As at 01/01	**3**	**5**
Additions	6	0
Disposals	0	–2
As at 31/12	**9**	**3**

The changes in the reporting period are due primarily to the acquisition or establishment of new property holding companies.

For the shareholding list, please see section H.14.

D. EXPLANATION OF ACCOUNTING AND VALUATION METHODS

D.1 INVESTMENT PROPERTY

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

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

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

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

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

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

The measurement of the fair value of the investment properties was carried out on the basis of property valuations performed by Savills Advisory Services Germany GmbH & Co. KG at the end of 2016/beginning of 2017 as well as the end of 2015/ beginning of 2016 as at 31 December 2016 and 31 December 2015 respectively.

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

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

Properties with negative net cash flows (e.g. continuously vacant properties) were valued using the liquidation value method (land value minus removal expenses and, possibly, plus remaining net income).

The value determinations of undeveloped plots of land (in E.1 represented under the asset class "other") was carried out using the comparable value method with consideration for official land values of the local property value committees. If necessary, the residual value method was also used to check the plausibility of land values.

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

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

- Future rental agreements, based on the individual location, type, size and quality of the property, under consideration of the conditions of existing rental relationships, other contracts or external indicators such as normal market rents for comparable properties

- Estimates on vacancy rates, based on current and expected future market conditions after the expiry of existing rental relationships
- Discounted interest rates for the planning period of ten years reflect the current market estimations regarding uncertainty of the amount and the timing of the inflow of future cash flows.
- Capitalisation rates, based on the individual location, type, size and quality of the property, with consideration for market information available on the date in question
- Residual values, in particular based on assumptions on future maintenance and reinvestment costs, vacancy rates and normal market rents and growth rates

D.2 PROPERTY, PLANT AND EQUIPMENT

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

Subsidies received are deducted during calculation of the acquisition costs.

The scheduled amortisation is carried uniformly across the Group pursuant to the following useful lives:

Useful life of property, plant and equipment in years

	2016	2015
Owner-occupied properties	50–60	50–60
Technical equipment and machinery	8–15	8–13
Other office furniture and equipment	3–13	3–13

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

D.3 INTANGIBLE FIXED ASSETS

Intangible fixed assets are capitalised at their acquisition cost. The intangible fixed assets are software licences which have a certain useful life. After they are made available, the software licences depreciate over an expected useful life of three to five years.

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

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

The goodwill is not subject to scheduled depreciation; it undergoes an annual impairment test instead. See section D.4 for details on the premise and execution of the impairment test by TLG IMMOBILIEN.

D.4 IMPAIRMENTS OF NON-FINANCIAL ASSETS

In accordance with IAS 36, the Group carries out annual tests on intangible fixed assets and property, plant and equipment to see whether or not unscheduled depreciation is necessary. These tests determine if there are indicators of a possible impairment. If such indicators exist, the recoverable amount is calculated for the asset in question. This corresponds to the higher of the fair value less costs of disposal or the value in use. If the recoverable amount of an asset is lower than the carrying amount, a valuation allowance is immediately carried out on the asset through net profit or loss.

In the financial year, it was not necessary to carry out an impairment test on property, plant and equipment or intangible fixed assets with a certain useful life as no indicators of impairment existed.

For goodwill acquired through the acquisition of companies and businesses, TLG IMMOBILIEN carries out the impairment test on an annual basis at the end of the financial year and also whenever there are indicators of possible impairment.

The goodwill results exclusively from the excess of measured deferred tax liabilities (for temporary deferred differences respective to the property asset) existing at the time of acquisition accounting of TLG FAB in relation to the lower fair value of the corresponding tax liabilities. An impairment was not required because temporary deferred differences still exceed goodwill.

D.5 OTHER FINANCIAL ASSETS

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

D.6 RECOGNITION OF LEASES BY THE LESSEE

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

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

Leases where the TLG IMMOBILIEN Group has no economic ownership are categorised as operating leases. The expenses resulting from such contracts are recognised through profit or loss when the leased objects are used.

D.7 RECOGNITION OF LEASES BY THE LESSOR

Under IAS 17, rental agreements for the properties are to be categorised as operating leases as the significant risks and opportunities in connection with the property remain with the TLG IMMOBILIEN Group.

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

D.8 INVENTORIES

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

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

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

D.9 RECEIVABLES AND OTHER ASSETS

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

Past experience and individual risk evaluations are used to factor in potential risks of default by means of reasonable allowances with consideration for the expected net cash flows.

D.10 CASH AND CASH EQUIVALENTS

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

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

D.11 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

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

Liabilities which are being disposed of together with the planned sale are a component of the disposal group or discontinued operation, and are also disclosed separately.

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

D.12 LIABILITIES TO FINANCIAL INSTITUTIONS

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

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

If changes to rates lead to significantly different contractual conditions according to IAS 39.AG 62, the original liability is treated, in accordance with IAS 39.40, as though it were completely repaid. Subsequently, a new liability is then recognised at fair value.

D.13 PENSION OBLIGATIONS

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

Obligations arising from defined benefit plans are measured using the projected unit credit method. This method factors in the known pensions and earned credits toward future pension payments on the reporting date, as well as the expected future increases in salaries and pensions. An actuarial valuation is carried out for each measurement date.

The Employers' Retirement Benefits Act (BetrAVG) forms the regulatory framework in Germany; pension increases are therefore based on the inflation rate. Some commitments have a guaranteed interest rate of 1% p.a., in which case no other trend is recognised. TLG IMMOBILIEN bears the actuarial risks such as the longevity risk, the interest risk and the inflation risk. TLG IMMOBILIEN is not exposed to any other plan-specific risks.

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

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

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

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

D.14 SHARE-BASED PAYMENTS

As compensation for work performed, the Management Board and selected managers of the Group receive equity-settled share-based payments which are entered in the statement of financial position in accordance with IFRS 2.

Using an appropriate valuation model, the costs of equity-settled share-based payment transactions are measured at their fair value at the time they were granted.

Together with a corresponding increase in capital reserves, these costs are recognised in personnel expenses over the vesting period.

D.15 OTHER PROVISIONS

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

D.16 DERIVATIVE FINANCIAL INSTRUMENTS

In the TLG IMMOBILIEN Group, derivative financial instruments are used to cover interest rate risks from real estate financing. Derivative financial instruments are recognised at fair value. Changes in the fair values of the derivatives are recognised through profit or loss as long as there is no hedging relationship in the sense of IAS 39.

Derivatives recognised as hedging instruments cover future cash flows which are characterised by uncertainty. The TLG IMMOBILIEN Group is exposed to a risk in connection with the amount of future cash flows, especially with regard to liabilities to financial institutions with variable interest rates. Therefore, changes to the fair value are broken down into an effective and an ineffective part. Effectiveness is determined using the dollar offset method. The effective part is the part of the measurement gain or loss which represents an effective hedge against the cash flow risk in the statement of financial position. The effective part is recognised directly to equity in other reserves (under other comprehensive income), after accounting for deferred taxes.

The ineffective part of the measurement gains and losses is included in the statement of comprehensive income and recognised under net interest.

The amounts recognised in equity are always transferred to the statement of comprehensive income if results in connection with the underlying transaction start affecting net profit or loss (recognised in net interest).

If the hedging relationship is terminated prematurely, the amounts recognised in equity are recognised through net profit or loss if results in connection with the existing underlying transaction start affecting net profit or loss. If the underlying transaction ceases to exist, the amounts that are still in other comprehensive income are immediately recognised through profit or loss.

TLG IMMOBILIEN only hedges against cash flows resulting from future interest payments.

D.17 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

D.18 DETERMINATION OF FAIR VALUE

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

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

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

The company checks for transfers between the levels at the end of each financial year. In the 2016 financial year, just as in the previous year, there were no transfers between individual input levels.

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

In summary, the fair value hierarchy is as follows:

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

D.19 RECOGNITION OF INCOME AND EXPENSES

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

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

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

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

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

D.20 GOVERNMENT GRANTS

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

Investment subsidies are grants intended to facilitate the acquisition or creation of an asset. The TLG IMMOBILIEN Group deducts them from the historical cost of the asset on the assets side of the statement of financial position. The grants are recognised pro rata by means of a reduced depreciation amount over the useful life of the asset, provided that the asset is subject to scheduled depreciation.

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

D.21 CURRENT AND DEFERRED TAXES

Income taxes represent the sum of current and deferred taxes.

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

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

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

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

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

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

D.22 BORROWING COSTS

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

D.23 MAJOR DISCRETIONARY DECISIONS AND ESTIMATES

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

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

This applies to the following issues in particular:

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

- Whether or not deferred tax assets can be recognised: These are recognised if it is likely that future tax advantages can be realised. The actual amount of taxable income in future financial years and the actual usefulness of deferred tax assets might deviate from expectations as at the date on which the deferred taxes were capitalised. There is also uncertainty with regard to unused tax losses due to future audits – deferred tax claims are only recognised in this context if it is more probable than not that they will exist.

Likewise, please see section E.1.

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

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

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

- Share-based remuneration: According to IFRS 2, costs resulting from the provision of equity instruments must be measured at their fair value as at the date on which they were provided. For the purposes of the estimate, the most suitable estimation method must be determined; this method is partially based on assumptions.

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

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

D.24 DISCLOSURE OF BUSINESS SEGMENTS

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

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

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

Revenue is generated by a large number of tenants. More than 10% of the total revenue was generated by one client. In the 2016 financial year, EUR k 19,519 of the total revenue was attributable to this client (previous year EUR k 18,483).

E. NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

E.1 INVESTMENT PROPERTY

In the 2015 and 2016 financial years, the carrying amount of the investment property developed as follows:

in EUR k	2016	2015
Carrying amount as at 01/01	**1,739,474**	**1,489,597**
Acquisitions	442,998	193,634
Capitalisation of construction activities and modernisation expenses	18,543	6,743
Receipt of grants and subsidies	0	−3,259
Reclassification as assets held for sale	−28,857	−38,603
Reclassification from property, plant and equipment	3,211	3,506
Adjustment of the fair value	39,859	87,856
Carrying amount as at 31/12	**2,215,228**	**1,739,474**

The portfolio strategy of TLG IMMOBILIEN stipulates the concentration on the asset classes of office and retail, as well as hotels with long-term leases in certain top central locations. Although the office portfolio is to be largely limited to promising A and B-rated locations, the retail portfolio – which is characterised by retail properties – is more widely distributed. Decisions on acquisitions, sales and pending investments are subject to the named principles of the portfolio strategy.

In line with its growth strategy, in 2016 TLG IMMOBILIEN more than doubled its volume of acquisitions from EUR k 193,634 in the previous year to EUR k 442,998 for the second year in a row. The acquisitions focused on office properties at 82%, followed by hotel properties at 13% and retail properties at 5%. By acquiring two office properties in Frankfurt am Main, TLG IMMOBILIEN has expanded its portfolio strategically into western Germany. Besides Frankfurt am Main which, with 38% of acquisitions, accounts for the largest proportion, the majority of acquisitions were made in Berlin again (22%) as well as in the eastern German growth regions of Leipzig (19%) and Dresden (15%).

The capitalisation of construction activities totalling EUR k 18,543 (previous year EUR k 6,743) concerns the retail and office asset classes in particular. The increase over the previous year is due primarily to project developments in connection with retail properties (34%) as well as the increase in office space being rented out (34%), especially in the office property at Alexanderstrasse 1, 3, 5 in Berlin where the vacancy rate was reduced significantly.

The EUR k 28,857 (previous year EUR k 38,603) in reclassifications as assets held for sale is due to strategic disposals from the portfolio. Reclassifications from property, plant and equipment totalling EUR k 3,211 (previous year EUR k 3,506) reflect the decrease in lettable area used by TLG IMMOBILIEN so that it can now be rented out.

Although the fair value adjustment was still positive at EUR k 39,859, it was significantly more moderate than the previous year (EUR k 87,856) in proportion to the portfolio as a whole. Of the remeasurement, 95% was attributable to the dormant portfolio in 2016. The dormant portfolio comprises properties that were in the portfolio on both 1 January and 31 December 2016, i.e. properties that were not acquired or reclassified as assets held for sale in 2016.

As at 31 December 2016, the fair values of the investment property differed depending on the measurement method as well as by asset class as follows. Advance payments made on these properties are not included here; they are recognised separately in the statement of financial position.

Investment properties as at 31 December 2016
Portfolio overview by asset class

	Discounted cash flow method					Liquidation method	
As at 31/12/2016	**Office**	**Retail**	**Hotel**	**Others**	**Total**	**Total**	**Total**
Investment properties [EUR k]	997,771	882,399	272,029	41,126	**2,193,325**	21,904	**2,215,228**
Discount rate, weighted average [%]	4.86	5.51	4.73	6.95	**5.14**	4.81	**5.14**
Capitalisation rate, weighted average [%]	6.14	7.51	5.91	8.76	**6.67**		**6.67**
EPRA Vacancy Rate [%]	5.3	2.0	2.4	8.2	**3.7**	57.3	**3.8**
Average effective rent [EUR/sqm/month]	9.64	9.97	12.67	4.34	**9.67**	12.69	**9.67**
Proportion of temporary rental agreements [%]	95.9	97.4	99.0	90.0	**96.7**	89.9	**96.7**
WALT of temporary rental agreements [years]	5.0	5.4	13.1	8.2	**6.1**	3.2	**6.1**

Investment properties as at 31 December 2015
Portfolio overview by asset class

	Discounted cash flow method					Liquidation method	
Stand 31.12.2015	**Office**	**Retail**	**Hotel**	**Others**	**Total**	**Total**	**Total**
Investment properties [EUR k]	597,395	867,600	207,565	54,620	**1,727,179**	12,295	**1,739,474**
Discount rate, weighted average [%]	4.96	5.66	4.65	6.69	**5.33**	4.80	**5.32**
Capitalisation rate, weighted average [%]	6.43	7.56	6.05	8.77	**6.99**		**6.99**
EPRA Vacancy Rate [%]	5.7	1.4	1.0	6.1	**3.0**	0.0	**3.0**
Average effective rent [EUR/sqm/month]	9.56	9.86	14.16	4.51	**9.60**	2.48	**9.52**
Proportion of temporary rental agreements [%]	92.9	97.5	99.0	89.9	**95.9**	89.9	**95.8**
WALT of temporary rental agreements [years]	5.1	5.9	15.2	8.4	**6.7**	0.9	**6.7**

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

In addition to the calculation of market value, a sensitivity analysis was carried out when the discount and capitalisation rates changed. If the discount and capitalisation rates on which the measurement of the properties was based had increased or decreased by 0.5 percentage points, the values as at 31 December 2016 would have been the following:

Investment properties as at 31 December 2016 – sensitivity analysis

As at 31/12/2016	Investment properties		Discount rate	
Values in EUR k		−0.5%	0.0%	+0.5%
	−0.5%	2,422,338	2,331,678	2,244,338
Capitalisation rate	0.0%	2,301,458	**2,215,228**	2,133,448
	+0.5%	2,198,158	2,117,188	2,040,138

Investment properties as at 31 December 2015 – sensitivity analysis

As at 31/12/2015	Investment properties		Discount rate	
Values in EUR k		−0.5%	0.0%	+0.5%
	−0.5%	1,892,237	1,822,744	1,756,462
Capitalisation rate	0.0%	1,804,607	**1,739,474**	1,676,842
	+0.5%	1,730,807	1,668,854	1,609,402

The parameters and asset classes on which the calculation is based have not changed significantly since 31 December 2016.

The following receivables from minimum lease payments are expected in the next few years on the basis of the agreements in effect as at 31 December 2016:

in EUR k	Due within 1 year	Remaining term > 1 to 5 years	Remaining term > 5 years	Total
31/12/2016	148,743	428,777	354,035	**931,555**
31/12/2015	121,764	371,992	332,248	**826,004**

In the 2016 financial year, contingent rents in the amount of EUR k 569 (previous year EUR k 139) were collected.

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

E.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The property, plant and equipment and intangible assets are primarily attributable to owner-occupied properties (EUR k 6,109; previous year EUR k 9,344) and goodwill (EUR k 1,164; previous year EUR k 1,164).

Due to a decrease in owner-occupied area in 2016, the owner-occupied properties measured according to IAS 16 were reclassified as investment property.

E.3 OTHER FINANCIAL ASSETS

Other financial assets are subdivided as follows:

in EUR k	31/12/2016	31/12/2015
Other loans	2,519	2,535
Account balances with restricted access	606	545
Derivative financial instruments	2,281	0
Remaining financial assets	258	338
Total	**5,664**	**3,418**

The account balances with restricted access are primarily cash for which guarantees have been issued.

The other financial assets are non-current up to the value of the other loans and the derivatives; the rest is current.

E.4 TRADE RECEIVABLES

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

in EUR k	31/12/2016	31/12/2015
Trade receivables, gross	8,320	15,585
Applicable allowances	−2,323	−3,673
Total of trade receivables	**5,997**	**11,911**
of which from letting activities	4,648	3,969
of which from disposal of properties	834	7,761
of which other trade receivables	514	181

All trade receivables are current.

For the development of valuation allowances and the collateral received, please see section H.1.

E.5 OTHER RECEIVABLES AND ASSETS

Other receivables and assets can be broken down as follows:

in EUR k	31/12/2016	31/12/2015
Accruals and deferrals	4,169	2,609
Receivables from other taxes	514	202
Prepayments	26	15
Accruals and deferrals from rental incentives granted	10,357	9,539
Other assets	2,047	3,681
Total	**17,113**	**16,046**

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

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

Of the other receivables and assets, EUR k 7,131 is current (previous year EUR k 6,883); the rest is non-current.

E.6 INVENTORIES

Real estate inventories are subdivided as follows:

in EUR k	31/12/2016	31/12/2015
Land with completed buildings	411	412
Undeveloped land	692	692
Total	**1,103**	**1,104**

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

in EUR k	2016	2015
Real estate inventories recognised as expenses in the reporting period	1	77
Real estate inventory with a term of more than one year	1,102	1,046

E.7 CASH AND CASH EQUIVALENTS

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

in EUR k	31/12/2016	31/12/2015
Bank account balances	68,411	183,731
Cash holdings	4	5
Total of cash and cash equivalents	**68,415**	**183,736**

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

E.8 ASSETS AND LIABILITIES HELD FOR SALE

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

in EUR k	2016	2015
Carrying amount as at 01/01	**15,912**	**21,991**
Fair value adjustments for interest rate derivatives in cash flow hedges	28,857	38,603
Disposal through the sale of land and buildings	−25,595	−44,682
Carrying amount as at 31/12	**19,174**	**15,912**

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

E.9 EQUITY

As at the reporting date, the subscribed capital of the company was EURk 67,432 (previous year EURk 67,432). The share capital is fully paid in. There are no other share types.

The capital reserve amounts to EURk 440,267 (previous year EUR k 439,510). The changes (EURk 757) are due to share-based remuneration entitlements of EURk 757.

The revenue reserves of the Group increased by EURk 45,725 to EURk 515,094 (previous year EUR k 469,369). This was due to the net income of EURk 93,998 attributable to the shareholders of the parent company, as well as the payment of a dividend totalling EURk 48,551 to the shareholders during the financial year, which corresponds to EUR 0.72 per no-par value share entitled to the dividend.

Other comprehensive income comprises actuarial gains and losses of EURk 2,162 (previous year EURk 1,899) and accumulated fair value adjustments of derivatives in cash flow hedges of EURk 11,128 (previous year EURk 9,347).

The deferred taxes are atributable to other comprehensive income:

01/01/2016 – 31/12/2016

in EURk	Before deferred taxes	Deferred taxes	After deferred taxes
Fair value adjustments for interest rate derivatives in cash flow hedges	−2,569	788	−1,781
Actuarial gains and losses	−379	116	−263

01/01/2016 – 31/12/2015

in EURk	Before deferred taxes	Deferred taxes	After deferred taxes
Fair value adjustments for interest rate derivatives in cash flow hedges	2,508	−850	1,703
Actuarial gains and losses	50	−15	35

E.10 LIABILITIES TO FINANCIAL INSTITUTIONS

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

Loans were valued at EURk 292,500 in the 2016 financial year (previous year EURk 46,567).

As at 31 December 2016 four loans due in 2017 totalling EURk 47,940 (previous year EURk 14,919) and the scheduled repayments to be made in 2017 were essentially recognised as due within one year.

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

Liabilities to financial institutions have the following remaining terms:

in EURk	31/12/2016	31/12/2015
Due within 1 year	65,248	36,011
Remaining term more than one year	975,164	746,677

E.11 PENSION OBLIGATIONS

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

As at 31 December 2016, EURk 3,002 of the present value of the benefit obligation was attributable to the group of former scheme members and EURk 5,345 was attributable to the group of pensioners and survivors. The average term of the obligations towards the managing directors is 14.38 years. The company has accrued payments of EURk 284 under pension schemes in 2016 (previous year EURk 270).

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

	2016	2015
Discount rate	1.35%	2.00%
Rate of pension progression*	2.00%	2.00%

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

The 2005G mortality tables published by Dr Klaus Heubeck were used for the biometric assumptions.

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

in EUR k	31/12/2016	31/12/2015
Present value of the obligations as at 01/01	**8,080**	**8,241**
Ongoing service costs	0	0
Interest expense	159	146
Pension payments rendered by the employer directly	−270	−257
Actuarial gains/losses	379	−50
Present value of the obligations as at 31/12	**8,347**	**8,080**

The actuarial loss resulting from the adjustment of the discount rate was recognised in other comprehensive income (OCI). Of this amount, a gain/loss of EUR k −340 (previous year EUR k 183) is attributable to adjustments made in the current year based on past experience and a gain/loss of EUR k 719 (previous year EUR k −233) is attributable to changes to financial assumptions. Overall, other comprehensive income comprises actuarial losses of EUR k 3,126 (previous year EUR k 2,747).

Expenses of EUR k 662 (previous year EUR k 642) for defined contribution plans arose in the current year. These essentially consist of contributions to the statutory pension scheme.

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

Sensitivity analysis 2016

in EUR k	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	7,280	9,669
Rate of pension progression *	0.50%	8,759	7,970

Sensitivity analysis 2015

in EUR k	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	7,050	9,355
Rate of pension progression *	0.50%	8,484	7,710

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

Increases and decreases in the discount rate, rate of pension progression or mortality do not cause the same absolute amount of difference in the calculation of the pension obligations. If several assumptions are changed at once, the total amount does not necessarily have to correspond to the sum of the individual effects resulting from the changes to the assumptions. Furthermore, the sensitivities only reflect a change to the pension obligations for the specific magnitude of each change to the assumptions (e.g. 0.5%). If the assumptions on a different magnitude change, this will not necessarily have a linear impact on the amount of the pension provisions.

E.12 OTHER PROVISIONS

The other provisions developed as follows in the financial year:

in EUR k	As at 01/01/2016	Contribution	Utilisation	Reversals	Other change	As at 31/12/2016
Provisions for litigation risks	1,953	352	−48	−1,045	250	1,463
Other miscellaneous provisions	462	0	−13	−285	200	365
Total	**2,416**	**352**	**−60**	**−1,330**	**450**	**1,828**

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

E.13 DEFERRED TAXES

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

	31/12/2016		31/12/2015	
in EUR k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property and owner-occupied property	1,252	225,734	0	193,710
Property, plant and equipment	43	0	478	0
Intangible assets	0	0	41	0
Other non-current financial assets	0	700	0	0
Other assets	489	3,182	1,948	3,021
Pension provisions	1,279	0	1,157	0
Financial liabilities	6,248	1,212	4,888	1,037
Other liabilities	1,068	534	1,316	1,327
Deferred taxes on taxable temporary differences	**10,379**	**231,362**	**9,827**	**199,095**
Loss/interest carryforwards	6,100	0	3,581	0
OBD	0	178	0	180
Total of deferred taxes before offsetting	**16,479**	**231,540**	**13,408**	**199,275**
Offsetting	13,827	13,827	13,408	13,408
Disclosure after offsetting	**2,652**	**217,713**	**0**	**185,867**

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

in EUR k	31/12/2016	31/12/2015
Deferred tax claims		
– realised after more than 12 months	14,048	10,915
– realised within 12 months	2,431	2,493
Total of deferred tax claims	**16,479**	**13,408**

in EUR k	31/12/2016	31/12/2015
Deferred tax claims		
– realised after more than 12 months	231,005	197,704
– realised within 12 months	535	1,571
Total of deferred tax claims	**231,540**	**199,275**

As at the end of the financial year, deferred tax liabilities for outside basis differences totalled EUR k 178 (previous year EUR k 180).

E.14 LIABILITIES

The liabilities are classified as follows:

in EUR k	31/12/2016	31/12/2015
Trade payables	**21,178**	**14,926**
Total of other liabilities	**20,900**	**15,277**
Liabilities to employees	1,801	1,791
Prepayments received	0	7,270
Other taxes	9,838	1,492
Investment grants	1,221	1,512
Liabilities to tenants	1,011	910
Accruals and deferrals from derivatives	2,053	0
Liabilities to non-controlling interests	2,522	0
Other liabilities	2,454	2,303
Total liabilities	**42,078**	**30,203**

The liabilities have the following remaining terms:

in EUR k	31/12/2016	31/12/2015
Up to 1 year	40,992	28,967
1–5 years	604	738
More than 5 years	482	497
Total	**42,078**	**30,203**

The prepayments received concerned the disposal of properties in the previous year.

The other taxes essentially concerned land transfer tax.

The investment grants comprise received subsidies which are realised pro rata in net profit or loss over the term of the rental agreement. Of the EUR k 1,221 in investment subsidies, EUR k 1,086 is long term.

The liabilities to tenants include credit from the annual utility invoices and overpayments by tenants.

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

F. NOTES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Reclassifications of account items in the financial year caused the comparative figures from the previous year to change. This has made it possible to present the net operating income from letting activities far more accurately.

The effects can be broken down as follows:

in EUR k	01/01/2015 – 31/12/2015 (adjusted)	01/01/2015 – 31/12/2015	Change
Net operating income from letting activities	**114,097**	**112,380**	**1,717**
Income from letting activities	**152,280**	**150,625**	**1,655**
a) Rental income	127,392	127,392	0
b) Income from recharged operating costs	23,330	22,870	460
c) Income from other goods and services	1,558	363	1,195
Expenses relating to letting activities	**−38,184**	**−38,245**	**61**
d) Expenses from operating costs	−29,528	−29,528	0
e) Maintenance expenses	−6,198	−6,209	11
f) Other services	−2,458	−2,508	50
Other operating income	**4,181**	**5,835**	**−1,655**
Other operating expenses	**−7,881**	**−7,820**	**−61**

F.1 NET OPERATING INCOME FROM LETTING ACTIVITIES

In the 2016 financial year, income from letting activities increased significantly, essentially due to additions of properties to the portfolio.

The development of expenses related to letting activities stands in direct correlation with and essentially corresponds to the revenue.

Rental guarantees totalling EUR k 330 were collected in the financial year.

F.2 RESULT FROM THE REMEASUREMENT/DISPOSAL OF INVESTMENT PROPERTY

The result from the remeasurement of investment property remained positive, due mainly to the persistently favourable market conditions in the 2016 financial year. The change in value was primarily driven by the positive market trends and the continuous growth in effective rents.

Measurement gains of EUR k 7,321 are attributable to the properties for which a notarised purchase contract was concluded in the financial year and concern the disposal of a property in the fourth quarter in particular.

The disposal proceeds of EUR k 6,381 are mainly attributable to a subsequent purchase price adjustment.

See section E.1 for more details.

F.3 OTHER OPERATING INCOME

Other operating income developed as follows in the reporting periods in 2016 and 2015:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Reversal of allowances	529	1,306
Insurance compensation	10	785
Purchase price adjustments	−278	0
Income from the disposal of fully consolidated companies	0	618
Income from previous years	311	604
Other income	205	867
Total	**777**	**4,181**

F.4 PERSONNEL EXPENSES

Personnel expenses were as follows in the 2016 and 2015 financial years:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Salaries	7,244	7,698
Social security contributions and pension expenses	1,316	1,220
Bonuses	1,418	1,422
Severance packages	477	670
Share-based payment components under IFRS 2	807	1,796
Total	**11,261**	**12,807**

The reduction in personnel expenses is due primarily to one-off effects in the previous year in connection with share-based remuneration components granted as part of the IPO.

F.5 DEPRECIATION, AMORTISATION AND WRITE-DOWNS

Depreciation, amortisation and write-downs developed as follows in the financial year and in the comparative period:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Amortisation of intangible fixed assets	289	313
Depreciation of land, land rights and buildings	145	185
Depreciation of technical equipment and machinery	6	126
Depreciation of other equipment and office and operating equipment	120	135
Total	**561**	**760**

F.6 OTHER OPERATING EXPENSES

Other operating expenses were recognised as follows in the 2016 and 2015 financial years:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Impairments of receivables	607	665
Consultancy and audit fees	2,996	2,412
General IT and administrative expenses	1,618	1,930
Ancillary office costs	640	836
Corporate advertising	872	881
Vehicle and travel expenses	359	443
Other	887	1,889
Reversal of provisions/liabilities	–840	–1,174
Total	**7,140**	**7,882**

The item “Other” essentially comprises adjustments according to § 15a UStG, Supervisory Board remuneration and losses from write-downs of property, plant and equipment.

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

F.7 NET INTEREST

Net interest is broken down as follows:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Net interest from bank balances	–73	–128
Net interest from default interest and deferrals	–35	–190
Other financial income	–206	–125
Total interest and financial income	**–313**	**–443**
Interest expenses for interest rate derivatives	5,265	4,221
Interest on loans	18,042	17,974
Interest expenses from pension provisions	159	146
Other financial expenses	2,184	1,508
Total interest and financial expenses	**25,650**	**23,849**
Financial result	**25,337**	**23,406**

F.8 GAIN/LOSS FROM THE REMEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

In the 2016 financial year, there were expenses of EUR k –299 from the remeasurement of derivatives (previous year EUR k 848).

In 2016, the remeasurement gains are due primarily to non-existent hedging relationships and ineffectiveness.

F.9 INCOME TAXES

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

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Current income tax	5,986	8,135
Previous period income taxes	–1,577	–4,407
Deferred taxes	30,098	34,583
Tax expenses/income	**34,507**	**38,311**

The previous period income taxes of EUR k –1,577 in 2016 were due primarily to effects in previous periods.

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

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
IFRS earnings before taxes	**128,616**	**169,172**
Group tax rate in %	30.67%	30.70%
Expected income taxes	**39,447**	**51,936**
Special trade tax regulations	164	409
Changes in tax rate in the financial year	−144	−327
Deviating tax rates for subsidiaries	−378	−780
Actual taxes in previous years	−1,577	−4,407
Deferred taxes for previous years	− 943	−8,081
Initial recognition or carry-back of loss carryforwards	−2,250	0
Tax-free income	0	−1,215
Non-deductible operating expenses	186	196
Other tax effects	2	579
Effective income taxes	**34,507**	**38,311**
Effective tax rate in %	26.83%	22.65%

The tax rate to be used to calculate the income tax computation accounts for the current and – given the current legal situation – probable corporation tax rates of 15.0% (previous year 15.0%) and the solidarity contribution of 5.5% (previous year 5.5%) of the defined corporation tax less any credit. The weighted trade tax rate for Berlin and the regions in which TLG IMMOBILIEN AG has business premises is approx. 424% for the financial year (previous year 425%). With consideration for the collection rate and the base amount of trade tax of 3.5% (previous year 3.5%), the trade tax rate is therefore 14.85% (previous year 14.875%).

The domestic tax rate on which the calculated deferred taxes and expected (notional) tax expenses of the Group are based was therefore 30.67% in the reporting year (previous year 30.70%).

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

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Deferred tax assets at the start of the reporting year	13,408	19,526
Change (in net profit or loss)	2,167	−2,292
Change recognised in equity	904	−820
Change due to basis of consolidation	0	−3,006
Deferred tax assets at the end of the reporting year	**16,479**	**13,408**
Deferred tax liabilities at the start of the reporting year	199,275	166,983
Change (in net profit or loss)	32,265	32,292
Deferred tax liabilities at the end of the reporting year	**231,540**	**199,275**

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

For more details on the deferred taxes, see section E.13.

F.10 EARNINGS PER SHARE

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

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Net income attributable to the shareholders in EUR k	93,998	130,620
Weighted average number of shares outstanding, in thousands	67,432	62,041
Basic earnings per share, in EUR	**1.39**	**2.11**
Potential diluting effect of share-based payment, in thousands	103	58
Number of shares with a potential diluting effect, in thousands	67,535	62,099
Diluted earnings per share, in EUR	**1.39**	**2.10**

The share-based remuneration of the Management Board and individual employees has a diluting effect based on the amount of work already carried out. The number of shares on the reporting date would increase by 103 thousand shares to a total of 67,535 thousand shares. For more information on share-based payment see section H.10 and the remuneration report.

G. NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

As an output of the calculation of the cash flow from operating activities, earnings before tax (EBT) decreased compared to the previous year. Overall, the net cash flow from operating activities increased by EUR k 4,130. The key drivers were the net cash flow resulting from the higher income from letting activities, lower personnel expenses and an approach to cash management based on the dates of the statement of financial position. The significantly higher income tax and interest payments had the opposite effect.

The cash flow from investing activities mainly comprises cash investments and disposals of properties. The decrease of EUR k 263,819 is essentially due to further planned reductions in cash inflows from disposals of non-strategic properties in comparison to the previous year, as well as a considerable increase in portfolio properties (2016: EUR k 445,621; previous year EUR k −205,839).

The cash flow from financing activities increased significantly due primarily to the inflows from new loans taken out in the financial year (2016: EUR k 292,500; previous year EUR k 46,467). Therefore, due to the higher volume of acquisitions, EUR k 245,933 more in loans was taken out compared to the previous year.

In 2016, the payment of a dividend reduced liquidity by EUR k 48,551 (previous year EUR k 15,326). Overall, in 2016 the cash flow from financing activities increased by EUR k 113,233 to EUR k 210,744 compared to the previous year.

H. OTHER INFORMATION

H.1 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

H.1.1 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

EXPLANATION OF MEASUREMENT CATEGORIES AND CLASSES

The following table presents the financial assets and liabilities by measurement category and class. Hedge derivatives are also accounted for, although they do not belong to any of the measurement categories of IAS 39. Additionally, with regard to the reconciliation of the statement of financial position, the non-financial liabilities are accounted for even though they are not subject to IFRS 7:

Measurement category in accordance with IAS 39

31/12/2016

in EUR k	Measurement category in accordance with IAS 39	Carrying amount as at 31/12/2016	Nominal value	Amortised cost	Fair value through net profit/loss	No measurement category in accordance with IAS 39	No financial instruments in accordance with IAS 32	Fair value as at 31/12/2016	Fair value hierarchy level
Other non-current financial assets (other loans)	LaR	2,519		2,519				2,519	2
Other non-current financial assets (derivative financial instruments)	HfT	1,331			1,331			1,331	2
Other non-current financial assets (derivative financial instruments)	n/a	950				950		950	2
Trade receivables	LaR	5,997		5,997				5,997	2
Other current financial assets	LaR	864		864				864	2
Cash and cash equivalents	LaR	68,415	68,415					68,415	1
Total financial assets		**80,076**	**68,415**	**9,380**	**1,331**	**950**	**0**	**80,076**	
Liabilities to financial institutions	FLaC	1,040,412		1,040,412				1,063,025	2
Trade payables	FLaC	21,178		21,178				21,178	2
Derivative financial instruments	n/a	16,837				16,837		16,837	2
Derivative financial instruments	FLHfT	3,533			3,533			3,533	2
Other liabilities	FLaC	20,900			2,924		17,976	20,900	2
Total financial liabilities		**1,102,860**	**0**	**1,061,590**	**6,457**	**16,837**	**17,976**	**1,125,473**	
Of which aggregated by measurement category in accordance with IAS 39									
Financial assets held for trading	HfT	1,331	0	0	1,331	0	0	1,331	
Loans and receivables	LaR	77,795	68,415	9,380	0	0	0	77,795	
Financial liabilities measured at amortised cost	FLaC	1,082,490	0	1,061,590	2,924	0	17,976	1,105,103	
Financial liabilities held for trading	FLHfT	3,533	0	0	3,533	0	0	3,533	

31/12/2015

in EUR k	Measurement category in accordance with IAS 39	Carrying amount as at 31/12/2015	Nominal value	Amortised cost	Fair value through net profit/loss	No measurement category in accordance with IAS 39	No financial instruments in accordance with IAS 32	Fair value as at 31/12/2015	Fair value hierarchy level
Other non-current financial assets	LaR	2,535	0	2,535	0	0	0	2,535	2
Trade receivables	LaR	11,911	0	11,911	0	0	0	11,911	2
Other current financial assets	LaR	883	0	883	0	0	0	883	2
Cash and cash equivalents	LaR	183,736	183,736	0	0	0	0	183,736	1
Total financial assets	**0**	**199,065**	**183,736**	**15,329**	**0**	**0**	**0**	**199,065**	**0**
Liabilities to financial institutions	FLaC	782,688	0	782,688	0	0	0	821,465	2
Trade payables	FLaC	14,926	0	14,926	0	0	0	14,926	2
Derivative financial instruments	n/a	15,668	0	0	0	15,668	0	15,668	2
Derivative financial instruments	FLHfT	253	0	0	253	0	0	253	2
Other liabilities	FLaC	15,277	0	0	2,779	0	12,498	15,277	2
Total financial liabilities	**0**	**828,812**	**0**	**797,614**	**3,032**	**15,668**	**12,498**	**867,589**	**0**
Of which aggregated by measurement category in accordance with IAS 39									
Loans and receivables	LaR	199,065	183,736	15,329	0	0	0	199,065	0
Financial liabilities measured at amortised cost	FLaC	812,891	0	797,614	2,779	0	12,498	851,668	0
Financial liabilities held for trading	FLHfT	253	0	0	253	0	0	253	0

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

For the most part, the carrying amounts of cash and cash equivalents, trade receivables, other financial assets, trade payables and other liabilities have short remaining terms and corresponded to the fair values as at the reporting date.

H.1.2 NET RESULTS BY MEASUREMENT CATEGORY

Under IFRS 7.20(a), the net gains and losses from financial instruments are to be disclosed for every measurement category of IAS 39. This does not include the effects on earnings of derivatives in hedging relationships as these must be disclosed under separate regulations and are therefore not attributable to any of the measurement categories of IAS 39.

The net results of financial instruments were as follows, broken down by the various measurement categories of IAS 39:

in EUR k		01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Loans and receivables	LaR	−246	−1,084
Available-for-sale financial assets	AfS	0	−618
Financial liabilities held for trading (at fair value through profit or loss)	FLHfT	−1,132	−24
Financial liabilities measured at amortised cost	FLaC	20,226	19,482
Total		**18,848**	**17,756**

The net result of the "Loans and receivables" measurement category comprises net interest from liquid capital, allowances and reversals of write-downs resulting from the reversal of valuation allowances for rent receivable and the amortisation of rent receivable. The net interest amounts to EUR k 313 (previous year EUR k 443).

The net result of the "Financial assets held for trading" measurement category comprises the net interest and expenses for derivatives (except those designated hedging instruments) and the results from the measurement of these derivatives at market value.

The net result of the "Financial liabilities measured at amortised cost" measurement category comprises interest expenses for ongoing debt service of EUR k 18,042 and the results from the repayment of loans, which are also recognised under interest expenses.

H.2 PRINCIPLES OF FINANCIAL RISK MANAGEMENT

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

Capital management

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

As is standard in the sector, capital management is based on the net debt-to-equity ratio. The net debt-to-equity ratio is the ratio between net debt and the fair value of the investment property. The net debt is determined by subtracting cash and cash equivalents from liabilities to financial institutions.

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

As at 31 December 2016, the debt-to-equity ratio was as follows compared to the previous year:

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property (IAS 40)	2,215,228	1,739,474	475,754	27.4
Advance payments on investment property (IAS 40)	93	14,272	−14,179	−99.3
Owner-occupied property (IAS 16)	6,109	9,344	−3,235	−34.6
Non-current assets classified as held for sale (IFRS 5)	19,174	15,912	3,262	20.5
Inventories (IAS 2)	1,103	1,104	−1	−0.1
Real estate	**2,241,708**	**1,780,106**	**461,602**	**25.9**
Liabilities to financial institutions	1,040,412	782,688	257,724	32.9
Cash and cash equivalents	68,415	183,736	−115,321	−62.8
Net debt	**971,997**	**598,952**	**373,045**	**62.3**
Net Loan to Value (Net LTV) in %	**43.4**	**33.6**	**9.8 pp**	

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

The net LTV in the group is 43.4% and increased by 9.8 percentage points compared to the previous year. The capital management goals were achieved in the reporting year.

H.3 DEFAULT RISKS

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

Default risks exist primarily for trade receivables. The TLG IMMOBILIEN Group does not consider itself exposed to a significant credit risk with any of its contractual partners. The concentration of the credit risk is limited by the broad, heterogeneous customer base. Bad debt risks are minimised by the careful selection of contractual partners supported by professional credit checks. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used. If necessary, allowances are carried out for receivables.

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

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

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

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

31/12/2016

in EUR k	Carrying amount before allowances	Allowances	Residual carrying amount
Trade receivables	8,320	−2,323	5,997
Other financial assets	5,724	−60	5,664
Total	**14,044**	**−2,383**	**11,661**

31/12/2015

in EUR k	Carrying amount before allowances	Allowances	Residual carrying amount
Trade receivables	15,585	−3,674	11,911
Other financial assets	3,477	−59	3,418
Total	**19,062**	**−3,733**	**15,329**

Collateral exists for the gross trade receivables – essentially rent deposits of approx. EUR 3.2 m (previous year EUR 3.0 m) – which can be used to offset outstanding receivables if the legal requirements are met.

The allowances were as follows in the 2016 financial year:

31/12/2016

in EUR k	As at 01/01	Contribution	Utilisation	Reversals	Other change	As at
Trade receivables	3,674	451	−1,281	−521	0	2,323
Other financial assets	59	15	−6	−8	0	60
Total	**3,732**	**466**	**−1,287**	**−529**	**0**	**2,383**

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

31/12/2015

in EUR k	As at 01/01	Contribution	Utilisation	Reversals	Other change	As at
Trade receivables	5,650	713	−1,374	−1,296	−19	3,674
Other financial assets	67	2	0	−10	0	59
Total	**5,717**	**715**	**−1,374**	**−1,306**	**−19**	**3,733**

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

31/12/2016

in EUR k	Carrying amount	Adjusted		Not adjusted			
		Gross amount	Allowance	neither impaired nor overdue as at the reporting date	overdue but not impaired as at the reporting date		
					< 90 days	90–180 days	> 180 days
Trade receivables	5,997	4,173	−2,323	2,944	880	95	228
Other financial assets	5,664	5,681	−60	1	3	2	38
Total	**11,661**	**9,854**	**−2,383**	**2,944**	**883**	**97**	**266**

31/12/2015

in EUR k	Carrying amount	Adjusted		Not adjusted			
		Gross amount	Allowance	neither impaired nor overdue as at the reporting date	overdue but not impaired as at the reporting date		
					< 90 days	90–180 days	> 180 days
Trade receivables	11,911	7,745	−3,674	7,799	13	5	23
Other financial assets	3,418	70	−59	3,360	9	0	38
Total	**15,329**	**7,815**	**−3,733**	**11,159**	**22**	**5**	**61**

H.4 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following financial assets and financial liabilities are subject to offsetting:

Financial assets

in EUR k	Gross amount of financial assets	Gross amount of financial liabilities offset in the statement of financial position	Net amount recognised in the statement of financial position under financial assets
31/12/2016			
Trade receivables	22,307	−26,139	921
31/12/2015			
Trade receivables	19,909	−21,631	986

Financial liabilities

in EUR k	Gross amount of financial liabilities offset in the statement of financial position	Gross amount of financial assets	Net amount recognised in the statement of financial position under financial liabilities
31/12/2016			
Prepayments received towards operating costs	−26,139	22,307	−4,753
31/12/2015			
Prepayments received towards operating costs	−21,631	19,909	−2,797

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

H.5 LIQUIDITY RISKS

The risk that a company will be unable to meet its payment obligations on a contractually agreed date is known as the liquidity risk.

The treasury continuously monitors and plans the liquidity requirements of the Group in order to ensure its liquidity. Enough liquid capital to meet the obligations of the Group for a given period of time is always kept available.

Additionally, the Group has a short-term credit line of EUR k 500 which, if necessary, can be utilised. The credit line is unsecured.

The following table contains the contractually agreed (undiscounted) interest payments and repayments of the primary financial liabilities of the TLG IMMOBILIEN Group and the derivatives of the TLG IMMOBILIEN Group with a negative fair value. The maturities are based on the contractually defined fixed interest rates of the financial liabilities.

31/12/2016

		Maturities		
in EUR k	Carrying	< 1 year	1–5 years	> 5 years
Liabilities to financial institutions	1,040,412	81,129	579,404	467,417
Derivative financial instruments	20,370	6,715	16,237	−2,805
Trade payables	21,178	21,178	0	0
Other liabilities	20,900	19,814	604	482
Total	**1,102,860**	**128,837**	**596,245**	**465,093**

31/12/2015

		Maturities		
in EUR k	Carrying	< 1 year	1–5 years	> 5 years
Liabilities to financial institutions	782,688	48,460	532,517	278,807
Derivative financial instruments	15,921	4,753	11,254	151
Trade payables	14,926	14,926	0	0
Other liabilities	15,277	14,041	738	497
Total	**828,812**	**82,181**	**544,509**	**279,455**

All instruments for which payments were contractually agreed as at the reporting date have been included. Planned figures for new liabilities in the future are not included. The variable interest payments from financial instruments are determined on the basis of the last specific interest rates before the reporting date. Financial liabilities that can be repaid at any time are always allocated to the earliest repayment date.

Around 99.81% of the financial liabilities have fixed interest rates or are safeguarded by interest rate hedges (previous year around 99.62%). The average effective interest rate is around 2.56% (previous year around 2.91%). The future prolongation structure on the basis of the current residual debt is as follows:

in EUR k	Carrying	Nominal value	2017	2018–2021	> 2021
Prolongation structure 2016	1,040,412	1,044,400	65,469	527,362	451,569
Prolongation structure 2015	782,688	786,067	36,166	480,583	269,317

Some financing contracts provide for financial covenants (essentially the Group's equity ratio, LTV, interest coverage ratio and debt service coverage ratio), whereby the bank can exercise its right of termination without notice if the covenants are not adhered to. The company covers the risk of a breached covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. A breached covenant can also be remedied by means of unscheduled repayments, for example. No covenants were breached in 2016. Based on the current knowledge of the company, no breaches of covenant are foreseeable in the future.

H.6 MARKET RISKS

Increased interest rates can result in growing financing costs. The company accounts for this interest rate risk by creating interest rate hedges for loans with variable interest rates and by concluding agreements with fixed interest rates and terms spanning a number of years. The interest rate hedges include interest rate derivatives such as interest rate swaps and floors. The use of such interest rate derivatives is governed by guidelines. Under the guidelines, derivatives are only used for the purposes of hedging and never for trading. In general, there is a hedge for every loan with a variable interest rate.

The TLG IMMOBILIEN Group is not exposed to any foreign exchange risks as its major transactions are carried out in euros.

As at 31 December 2016, the portfolio contained the following derivatives whose maturity periods are as at the reporting date.

Derivative

in EUR k	Fair value	< 1 year
Derivative assets held for trading	**1,331**	**0**
of which interest rate swaps	579	0
of which floors	752	0
Derivative liabilities held for trading	**3,533**	**0**
of which interest rate swaps	3,533	0
Hedge derivatives	**17,787**	**0**
of which floors	950	0
of which interest rate swaps with negative fair value	16,837	0

As at 31 December 2014 the portfolio contained the following derivatives:

Derivative

in EUR k	Fair value	< 1 year
Derivative liabilities held for trading	**253**	**0**
of which interest rate swaps	253	0
Hedge derivatives	**15,668**	**0**
of which interest rate swaps	15,668	0

The derivatives are used as hedging instruments under IAS 39 if they meet the hedge accounting requirements. The cash flows from the underlying transactions – which are covered by cash flow hedge accounting – will arise from 2017 to 2026 and affect the statement of comprehensive income.

In 2016, ineffectiveness of EUR k 436 was recognised in the statement of comprehensive income as part of accounting for hedging relationships.

The following table shows the amount recognised directly in other comprehensive income during the reporting period. This corresponds to the effective part of the change in fair value.

in EUR k	2016	2015
Opening balance as at 01/01	**−13,472**	**−15,980**
Recognition in accumulated other comprehensive income in the reporting period	−7,369	−1,685
Reversal from equity into the income statement	4,800	4,193
Closing balance as at 31/12	**−16,041**	**−13,472**

H.7 SENSITIVITIES

Under IFRS 7, interest rate risks are represented by sensitivity analyses. These analyses determine the impact of a change in market interest rates on the net interest and expenses, trading profit and losses, and on the equity on the reporting date.

The sensitivity analysis also factors in the impacts on equity and the statement of comprehensive income of TLG IMMOBILIEN that would result from a simultaneous fluctuation in the euro yield curve by ±50 basis points (previous year: ±50 basis points). If the yield curve were to decline by 50 basis points, the interest rate would fall to 0.0% at the lowest, provided that this has been contractually agreed. The cash flow effects from fluctuations in the yield curve merely concern the interest income and expenses for the next reporting period.

Based on the financial instruments held or issued by TLG IMMOBILIEN as at the reporting date, a hypothetical change – quantified by sensitivity analyses – in the interest rates on which each instrument was based on the reporting date would have had the following effects (before taxes).

Derivatives

	Effect on OCI		Effects on income	
in EUR k	+50 BP	−50 BP	+50 BP	−50 BP
31/12/2016				
Financial liabilities	0	0	−2,805	2,021
Interest rate derivatives	7,998	−21,306	2,504	−2,008
Floors	−918	1,523	0	0

Derivatives

	Effect on OCI		Effects on income	
in EUR k	+50 BP	−50 BP	+50 BP	−50 BP
31/12/2015				
Financial liabilities	0	0	−1,784	1,139
Interest rate derivatives	7,453	−7,723	501	−516

H.8 NUMBER OF EMPLOYEES

As at 31 December 2016, 111 people were employed by the Group (122 as at 31/12/2015).

	31/12/2016	Average number of employees in 2016	31/12/2015	Average number of employees in 2015
Permanent employees	105	105	116	114
Temporary employees	6	5	6	6
Total	**111**	**110**	**122**	**120**

As in the previous year, the full-time employees are not reported due to the low proportion of part-time employees.

H.9 TOTAL AUDITOR'S FEE

The following fees have been recognised as expenses for the services rendered by the auditor of the consolidated financial statements in the financial year:

in EUR k	2016	2015
Audit services	183	185
Other assurance services	380	22
Other services	16	3
Total fee	**579**	**210**

The increase is due primarily to the other assurance services in connection with the preparation of a prospectus.

H.10 IFRS 2 PROGRAMMES

H.10.1 SHARE-BASED REMUNERATION OF EMPLOYEES

In the 2016 financial year, expenses for a share-based remuneration component for certain employees were recognised under IFRS. The grant date fair value of the previous schemes is EUR k 198.

With regard to its targets and payment criteria, this remuneration component shares its structure with the long-term incentive scheme for the Management Board, which is described below.

H.10.2 LTI MANAGEMENT BOARD CONTRACTS

The new employment contracts for the members of the Management Board, which were concluded in late September 2014, include a long-term incentive programme for each financial year from 2015 to 2018 (hereinafter referred to as the LTI tranche). An LTI tranche covers a four-year period. Completion of the defined objectives is determined at the end of the fourth year by means of a comparison between current progress and the target.

The amount of LTI remuneration is contingent on the completion of certain objectives. In this regard, the major objectives are the improvement of the net asset value and the TLG IMMOBILIEN AG share price compared to the relevant EPRA Europe index.

The contracts of the members of the Management Board cannot be duly terminated. The contract will end if a member of the Management Board becomes permanently unable to work during the term of the contract. The member of the Management Board will receive 100% of his LTI if he was actively employed during the calendar year in which the evaluation of the objectives commenced. If the member of the Management Board was not employed for the full calendar year, the LTI shall be disbursed at a proportional rate.

The 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.

Based on the estimations of the Management Board as to the completion of performance hurdles, personnel expenses of EUR k 608 were recognised for the LTI as at 31 December 2016 (previous year EUR k 618).

The fair value on the settlement date was EUR k 2,465. An achievement rate of 123% was assumed. For more information on the Management Board contracts, see the disclosures in the Remuneration Report.

H.11 RELATED COMPANIES AND PARTIES

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

Accordingly, the members and close relatives of the Management and Supervisory Boards of TLG IMMOBILIEN AG and the TLG IMMOBILIEN Group's subsidiaries are considered related parties and companies.

Related companies

No transactions of particular significance took place with related companies in the 2016 financial year.

Related parties

No transactions of particular significance took place with related parties in the 2016 financial year.

The composition of the Management Board has not changed since 31 December 2015.

However, the composition of the Supervisory Board has changed. Mr Heße stepped down from the Supervisory Board with effect from 31 May 2016.

The remuneration paid by TLG IMMOBILIEN AG to the members of the Management Board was as follows in the 2016 financial year:

in EUR k	2016	2015
Fixed remuneration	600	600
Fringe benefits	113	107
Subtotal of fixed remuneration	**713**	**707**
Short-term variable remuneration (STI)	520	400
Long-term variable remuneration (LTI)	0	0
Subtotal of variable remuneration	**520**	**400**
Total remuneration	**1,233**	**1,107**

See the Remuneration Report, which is part of the report on the position of the company and the Group, for more disclosures on the remuneration of the Management Board.

Remuneration paid to previous members of the management totalled EUR 0.2 m in 2016 (previous year EUR 0.2 m). In 2016, EUR 2.9 m was placed into reserves for pension obligations to past members of the management (previous year EUR 2.8 m).

In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. The remuneration paid pro rata to the members of the Supervisory Board for the 2016 financial year totalled EUR 0.3 m (previous year EUR 0.3 m).

In summary, this resulted in the following recognised expenses for the remuneration of the Management and Supervisory Boards in line with IAS 24.17:

in EUR k	2016	2015
Benefits due in the short term	1,412	1,406
Other benefits due in the long term	113	107
Share-based remuneration	608	1,575
Total	**2,132**	**3,088**

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

Michael Zahn (Chairman of the Supervisory Board)	Member since 05/09/2014 Chairman since 08/09/2014
Chairman of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Chairman of the capital measures committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
CEO of Deutsche Wohnen AG, Berlin	
Chairman of the Supervisory Board of GSW Immobilien AG, Berlin	
Chairman of the Supervisory Board of Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin	
Chairman of the Advisory Board of G+D Gesellschaft für Energiemanagement GmbH, Magdeburg	
Chairman of the Advisory Board of Funk Schadensmanagement GmbH, Berlin	
Member of the Advisory Board of DZ Bank AG, Frankfurt am Main	
Member of the Advisory Board of Füchse Berlin Handball GmbH, Berlin	since 15/09/2016
Member of the Real Estate Advisory Board of GETEC Wärme & Effizienz AG, Magdeburg	since 08/11/2016
Alexander Heße (Vice-chairman)	05/09/2014 – 31/05/2016
Member of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	01/10/2014 – 31/05/2016
Senior Managing Director and Co-Head European Real Estate Investments, Lone Star Germany Acquisitions GmbH	
Chairman of the Supervisory Board of Globe Trade Center S.A., Warsaw	
Director, Lone Star Spain Acquisitions SL, Madrid	
Director, Lone Star France Acquisitions SARL, Paris	
Director, Lone Star Netherlands Acquisitions B.V., Amsterdam	
Dr Michael Bütter	since 25/09/2014
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Member of the capital measures committee of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
Member of the Executive Committee and Group General Counsel Scout 24 AG, Berlin	
Member of the Board of Directors, ADO Properties S.A., Luxembourg	
Chairman of the Audit Committee of ADO Properties S.A., Luxembourg	
Member of the Investment and Finance Committee of ADO Properties S.A., Luxembourg	
Member of the Advisory Board of Corestate Capital Holding S.A., Luxembourg	since 01/01/2017
Member of the Supervisory Board of Assmann Beraten + Planen AG, Berlin	since 01/04/2016
Dr Claus Nolting	since 05/09/2014
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	since 25/09/2015
Lawyer and consultant	
Vice-chairman of the Supervisory Board of IKB Deutsche Industriebank, Düsseldorf	
Chairman of the risk and audit committee of IKB Deutsche Industriebank, Düsseldorf	since 25/02/2016
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	since 19/05/2016
Chairman of the Supervisory Board of MHB-Bank AG, Frankfurt am Main	since 22/12/2016
Elisabeth Talma Stheeman	since 25/09/2014
Member of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Independent Non-Executive Board Director	
Governor of the London School of Economics (LSE), London	
Member of the audit committee of the London School of Economics (LSE), London	until 31/07/2016
Vice-chairperson of the financial committee of the London School of Economics (LSE), London	since 01/08/2016
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	
Helmut Ullrich	since 23/07/2015
Chairperson of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 13/08/2015
Member of the capital measures committee of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
Member of the Supervisory Board of GSW Immobilien AG, Berlin	
Chairperson of the audit committee of GSW Immobilien AG, Berlin	

H.12 CONTINGENT LIABILITIES

There are the following contingent liabilities for items for which the Group has issued guarantees to various contractual partners:

in EUR k	31/12/2016	31/12/2015
Land charges	1,041,033	781,522
	1,041,033	**781,522**

H.13 OTHER FINANCIAL OBLIGATIONS

As at the reporting date, the other financial obligations of the Group consisted of EUR k 1,842 (previous year EUR k 1,138) in future payments (net) resulting from operating leases and a commitment of EUR k 5,823 (previous year EUR k 102,997) for investment property and property, plant and equipment.

The company has diverse service contracts for IT services, building cleaning, reception staff and security services with a payment obligation of EUR k 1,169 (previous year EUR k 675), as well as vehicle lease contracts for its fleet of vehicles with a payment obligation of EUR k 275 (previous year EUR k 278). There are also rental agreements on the leasing of space for archiving purposes with a payment obligation of EUR k 397 (previous year EUR k 185).

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

The expenses for minimum lease instalments in the 2016 financial year totalled EUR k 195 (previous year EUR k 213).

H.14 SHAREHOLDING LIST

As at 31 December 2016, TLG IMMOBILIEN AG holds interests in the following fully consolidated companies:

Name and registered offices of the company	Shareholding	Equity as at 31/12/2016 in EUR k	Results of the 2016 financial year in EUR k
TLG Vermögensverwaltungs GmbH, Berlin i. L.	100%	75	−1
TLG FAB S.à r.l., Luxembourg	94.9%	33,665	1,986
Hotel de Saxe an der Frauenkirche GmbH, Dresden [1]	100%	22,200	1,175
TLG Sachsen Forum GmbH, Berlin [1]	100%	24,104	79
TLG Fixtures GmbH, Berlin [1]	100%	359	−1
TLG CCF GmbH, Berlin [1, 2]	100%		
TLG CCF S.C.S., Luxembourg [3]	100%	25,158	−3,230
TLG MVF GmbH, Berlin [1, 2]	100%		
TLG MVF S.C.S., Luxembourg [3]	100%	2,929	−3,328

[1] According to § 264 (3) HGB, companies are exempted from their obligation to prepare financial statements.
[2] Different financial year (30/06). As it was established in the 2016 financial year, it has not yet been necessary to prepare annual financial statements.
[3] Financial statements for the 2014 financial year

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

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

The portfolio of fully consolidated companies was as follows as at 31 December 2015:

Name and registered offices of the company	Shareholding	Equity as at 31/12/2015 in EUR k	Results of the 2015 financial year in EUR k
Hotel de Saxe an der Frauenkirche GmbH, Dresden	100%	27,799	224
TLG Vermögensverwaltungs GmbH, Berlin i. L.	100%	76	−11
TLG FAB S.à r.l., Luxembourg	94.9%	32,602	1,827

H.15 SUBSEQUENT EVENTS

With the approval of the Supervisory Board, on 30 January 2017 the Management Board carried out a capital increase in exchange for cash contributions, which involved the partial utilisation of the authorised capital for 2016.

As part of the capital increase, TLG IMMOBILIEN made 6.7 m new shares available to institutional investors at an issue price of EUR 17.20 per share by means of accelerated book building. The gross proceeds were therefore around EUR 116.0 m.

The company intends to use the net proceeds from the private placement to finance its most recent and future acquisitions of German office and retail properties in line with its stated acquisition criteria, as well as for general business purposes.

The new shares are fully entitled to dividends from 1 January 2016 onwards.

H.16 DECLARATION OF COMPLIANCE UNDER § 161 AKTG

The Management and Supervisory Boards have fulfilled the recommendations of the German Corporate Governance Code as set out in the corporate governance report. The declaration of compliance will be made available to the shareholders when the annual report for 2016 is published in the Investor Relations section of the company's website *www.tlg.eu*.

Berlin, 10 February 2017

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

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the combined management report of the Company and the Group:

"We have audited the consolidated financial statements prepared by TLG IMMOBILIEN AG, Berlin, comprising the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity, and the notes to the consolidated financial statements, together with the combined management report for the Company and the Group the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development."

Berlin, 10 February 2017

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	Kreninger Auditor	Pilawa Auditor

QUARTERLY PERFORMANCE

	Unit	Q1 2016	Q1 2015	Q2 2016	Q2 2015	Q3 2016	Q3 2015	Q4 2016	Q4 2015
Results of operations									
Rental income	in EUR k	32,513	30,374	35,072	30,686	35,795	32,752	37,084	33,580
Net operating income from letting activities (NOI)	in EUR k	28,892	26,451	32,348	27,492	31,372	28,505	32,976	29,932
Disposal profits	in EUR k	619	5,790	−2	−1,099	0	402	5,774	3,650
Net income	in EUR k	12,888	32,124	20,622	42,762	19,512	25,505	41,087	30,471
Funds from operations (FFO)	in EUR k	17,135	15,753	21,171	15,249	20,306	16,779	18,265	16,206
FFO per share [1]	in EUR	0.25	0.26	0.32	0.25	0.30	0.27	0.27	0.25

	Unit	31/12/2016	30/09/2016	30/06/2016	31/03/2016	31/12/2015
Balance sheet metrics						
Investment property	in EUR k	2,215,228	1,974,067	1,972,921	1,852,405	1,739,474
Cash and cash equivalents	in EUR k	68,415	43,059	36,776	99,779	183,736
Total assets	in EUR k	2,344,763	2,090,843	2,050,168	1,997,950	1,999,461
Equity	in EUR k	1,009,503	969,912	949,792	978,325	967,874
Equity ratio	in %	43.1	46.4	46.3	49.0	48.4
Liabilities to financial institutions	in EUR k	1,040,412	859,220	840,660	775,115	782,688
Net debt	in EUR k	971,997	816,161	803,884	675,336	598,952
Net LTV [2]	in %	43.4	40.4	40.5	36.2	33.6
EPRA NAV	in EUR k	1,248,259	1,191,322	1,168,839	1,189,829	1,171,594
EPRA NAV per share	in EUR	18.51	17.67	17.33	17.64	17.37

[1] *Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.*
[2] Calculation: Net debt divided by property value; for the composition, see page 69

ANNUAL PERFORMANCE

	Unit	2013	2014	2015	2016
Results of operations					
Rental income	in EUR k	118,321	114,776	127,392	140,464
Net operating income from letting activities (NOI)	in EUR k	106,250	100,263	114,096	125,588
Disposal profits	in EUR k	8,271	10,611	8,743	6,391
Net income	in EUR k	99,132	88,650	130,862	94,109
Funds from operations (FFO)	in EUR k	46,129	52,370	63,987	76,877
FFO per share [1]	in EUR	0.89	0.97	1.03	1.14

	Unit	31/12/2013	31/12/2014	31/12/2015	31/12/2016
Statement of financial position					
Investment property	in EUR k	1,414,691	1,489,597	1,739,474	2,215,228
Cash and cash equivalents	in EUR k	138,930	152,599	183,736	68,415
Total assets	in EUR k	1,635,694	1,738,000	1,999,461	2,344,763
Equity	in EUR k	801,036	747,964	967,874	1,009,503
Equity ratio	in %	49.0	43.0	48.4	43.1
Liabilities to financial institutions	in EUR k	626,227	770,447	782,688	1,040,412
Net debt	in EUR k	487,297	617,848	598,952	971,997
Net LTV [2]	in %	33.3	40.3	33.6	43.4
EPRA NAV	in EUR k	913,533	914,008	1,171,594	1,248,259
EPRA NAV per share	in EUR	17.57	14.91	17.37	18.51

	Unit	31/12/2013	31/12/2014	31/12/2015	31/12/2016
Key portfolio performance indicators					
Fair value [3]	in EUR k	1,462,356	1,525,986	1,765,834	2,241,615
Real estate	Number	573	460	418	404
Annualised in-place rent [4]	in EUR k	112,451	118,859	131,379	155,276
In-place rental yield	in %	7.7	7.8	7.4	6.9
EPRA Vacancy Rate	in %	5.5	3.9	3.7	3.8
WALT	in years	7.9	7.4	6.5	6.1
Average rent	EUR/sqm	7.91	8.38	9.23	9.67

[1] Before the company became an Aktiengesellschaft (stock corporation) on 5 September 2014, it was a limited liability company (GmbH). Therefore, for the purposes of comparison, the value of the issued shares is the value that would have existed if the company had always been an Aktiengesellschaft with the same number of shares. Total number of shares as at 31. Dec. 2013/2014/2015/2016: 52.0 m/61.3 m/67.4 m/67.4 m Average weighted number of shares per year 2013/2014/2015/2016: 52.0 m/53.8 m/62.0 m/67.4 m
[2] Calculation: Net debt divided by property value; for the composition, see page 69
[3] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5.
[4] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

FINANCIAL CALENDAR

11 MAY 2017
Publication of quarterly financial report Q1/2017

23 MAY 2017
Annual general meeting

11 AUGUST 2017
Publication of quarterly financial report Q2/2017

9 NOVEMBER 2017
Publication of quarterly financial report Q3/2017

CONTACT

PUBLISHER:
TLG IMMOBILIEN AG

Hausvogteiplatz 12
10117 Berlin, Germany

Investor Relations
Sven Annutsch

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

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PHOTOGRAPHY:
Michael Fahrig
Ralf U. Heinrich
Oli Keinath
Urs Kuckertz
Felix Matthies
Andreas Nenninger
Karsten Prauße
Barbara Staubach
TLG IMMOBILIEN AG

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