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**ANNUAL  
REPORT**

IFRS financial statements

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## Five-year overview

### KEY FIGURES

#### FIVE-YEAR OVERVIEW

EUR k	2018	2017	2016	2015	2014
<b>Revenues and earnings</b>					
Revenues	193,193	193,680	202,663	115,337	101,782
Net rental income	169,068	172,911	179,014	102,140	90,020
Consolidated profit for the period	527,414	296,987	176,872	-110,970	36,953
FFO <sup>1)</sup>	114,730	113,834	116,410	59,397	47,626
Earnings per share (EUR) <sup>1)</sup>	3.02	1.94	1.16	-1.15	0.47
FFO per share (EUR) <sup>1)</sup>	0.65	0.74	0.76	0.61	0.60

<sup>1)</sup> Excluding minorities.

EUR k	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
<b>Balance sheet</b>					
Investment property	3,938,864	3,331,858	2,999,099	3,260,467	1,645,840
Total assets	4,181,252	3,584,069	3,382,633	3,850,580	1,769,304
Equity	2,684,087	1,954,660	1,728,438	1,619,377	846,593
Liabilities	1,497,165	1,629,409	1,654,195	2,192,916	922,711
Net asset value (NAV) per share (EUR)	15.13	12.70	11.28	10.64	10.71
Net loan-to-value (Net LTV, %)	30.4	40.0	40.9	49.3	50.4

G-REIT figures	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
G-REIT equity ratio (%)	67.2	57.1	56.7	49.4	50.2
Revenues including other income from investment properties (%)	100	100	100	100	100

EPRA figures <sup>1)</sup>	2018	2017	2016	2015	2014
EPRA earnings per share (EUR)	0.62	0.68	0.57	0.42	0.59
EPRA cost ratio A (%) <sup>2)</sup>	23.0	19.6	20.6	26.1	22.9
EPRA cost ratio B (%) <sup>3)</sup>	19.0	16.4	16.6	22.1	19.8

	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
EPRA NAV per share (EUR)	15.14	12.71	11.31	10.91	11.22
EPRA NNNAV per share (EUR)	14.96	12.45	10.81	10.66	10.58
EPRA net initial yield (%)	4.0	4.6	5.0	5.0	4.8
EPRA ‘topped-up’ net initial yield (%)	4.4	5.0	5.4	5.3	5.0
EPRA vacancy rate (%)	9.7	9.4	9.2	11.2	11.0

<sup>1)</sup> For further information, please refer to EPRA Best Practices Recommendations, [www.epra.com](http://www.epra.com).

<sup>2)</sup> Including vacancy costs.

<sup>3)</sup> Excluding vacancy costs.

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## GROUP MANAGEMENT REPORT

### ECONOMICS AND STRATEGY

#### ECONOMIC CONDITIONS

##### **Framework**

The German economy again proved to be solid in 2018. Germany's GDP increased by 1.5%, after 2.2% in previous years. The growth has lost some of its momentum. However, a longer-term consideration shows that the average of the last ten years (+1.2%) was exceeded. This good development was also reflected in the German labor market, as the unemployment rate decreased by 0.5 percentage points to 5.2%. The employment level reached an all-time peak of 44.8 million employees, which is 1.3% more than last year.\*

The total volume of the German investment market for commercial real estate increased by 6.0% to EUR 60.1 billion compared to the previous year of EUR 57.4 billion. It can be concluded that Germany still offers great investment opportunities due to its strong key economic and real estate figures.\*\*

#### **Overview of the German office-property market**

##### ***Development of office rents***

In 2018, according to the largest commercial real estate agencies, the average rents for office space in seven important commercial real estate markets – Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, and Stuttgart – known as the Big 7 – exceeded the previous year's levels. Berlin reached the highest average rent for office space at EUR 21.48/m<sup>2</sup>, followed by Frankfurt at EUR 20.52/m<sup>2</sup>, Munich at EUR 18.86/m<sup>2</sup>, Hamburg at EUR 15.92/m<sup>2</sup>, Düsseldorf at EUR 15.67/m<sup>2</sup>, Stuttgart at EUR 14.00/m<sup>2</sup>, and Cologne at EUR 13.80/m<sup>2</sup>.

##### ***Take-up in major German cities***

The vacancy rate of office properties in German cities decreased from 4.8% in 2017 to 4.0% in 2018, which represents a total vacancy of 3.4 million m<sup>2</sup> (a decrease of 0.9 million m<sup>2</sup>). Among the Big 7, the highest vacancy rate was recorded in Düsseldorf at 7.4%, followed by those in Frankfurt at 7.1%, Hamburg at 4.0%, Cologne at 3.0%, Munich at 2.5%, Stuttgart at 2.3%, and Berlin at 1.9%.

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\* Annual Economic Report 2019 from the Federal Ministry of Economics and Energy.

\*\* Sources of real estate market data in this chapter are Jones Lang LaSalle, Colliers International Deutschland GmbH, BNP Paribas Real Estate, and CBRE GmbH.

### ***New lease-ups***

In 2018 new lease contracts were signed for more than 3.9 million m<sup>2</sup> of office space in the Big 7 German cities. This reflects a decrease of 0.3 million m<sup>2</sup>, or 6.9%, compared to the previous year. Nevertheless, the revenues achieved in most of the cities are under the top 2 or top 3 results of all times. The highest positive take-ups of office space were registered in Munich at 978,325 m<sup>2</sup> (-1.1%), along with 826,025 m<sup>2</sup> (-11.2%) in Berlin, 637,375 m<sup>2</sup> (-10.3%) in Frankfurt and 568,000 m<sup>2</sup> (-9.7%) in Hamburg. In defiance of the national trend, Düsseldorf at 382,875 m<sup>2</sup> (+3.5%) showed an increase compared to the previous year. Cologne at 300,400 m<sup>2</sup> (-2.6%), and Stuttgart at 215,700 m<sup>2</sup> (-17.5%) showed a decline in office space sales. In particular, these declines were attributed to the declining supply of space.

### ***New office supply***

According to the largest commercial real estate agencies, approx. 985,000 m<sup>2</sup> of new office space was built in 2018. Compared to last year, this was an increase of around 7.9%. Cologne (+30.7%), Berlin (+29.7%), Munich (+26.2%) and Frankfurt (+0.8%) were the only cities of the Big 7 that generated an increase in new office spaces compared to the previous year. The amount of new office builds declined in the other Big 7 markets, including Stuttgart (-27.3%) Düsseldorf (-17.0%) and Hamburg (-1.6%). For 2019, the completion volume is forecasted to increase (approx. 1,680,000 m<sup>2</sup>).

### ***Investment markets***

The positive trend in the investment markets continued in financial year 2018. Total investment volume (around EUR 60.1 billion for commercial assets) was around 6.0% higher than the previous year's result. The Big 7 cities recorded a transaction volume of around EUR 32.4 billion. Through the increase in Frankfurt's market volume, Frankfurt (EUR 9.2 billion; +31.1%) replaced Berlin (EUR 6.0 billion; -20.9%) at the top. Munich's market had the third-highest transaction volume of the Big 7 at EUR 5.6 billion (-1.9%), followed by Hamburg at EUR 4.9 billion (+32.3%), Düsseldorf at EUR 3.3 billion (+9.2%), Stuttgart at EUR 1.9 billion (+43.9%), and Cologne at EUR 1.5 billion (-28.0%). With regard to the deal structure, around 62% of the commercial investment turnover in the 2018 financial year was related to single-asset deals, while the share of portfolio transactions amounted to 38%; these values are in accordance with those from the previous year.

There were no apparent fundamental changes in investment strategies due to the price increases of real estate, although there were indications of a slightly higher risk tolerance. Nevertheless, investors are more interested in value-add assets. Followed by core assets – which are characterized by their good condition, good location, and long-term, attractive letting status – and core-plus, and opportunistic assets.

## STRATEGY AND STRUCTURE

alstria office REIT-AG (hereafter referred to as ‘the Company’) is a real estate company listed on the Frankfurt Stock Exchange. As of December 31, 2018, the alstria Group consisted of the corporate parent, alstria office REIT-AG, and 50 direct and indirect subsidiaries (together hereafter referred to as ‘alstria’ or ‘the Group’). Operational decisions are made at the parent-company level. While alstria office REIT-AG directly held more than 50% of the Company’s real estate assets (69 properties with an overall market value of EUR 2.0 billion), the remaining real estate assets were held by 34 subsidiaries as of December 31, 2018.

alstria pursues a long-term investment strategy for its portfolio, which is essentially based on the following assumptions:

- Considering the high market prices on the German office investment market, alstria follows a more selective investment strategy, thereby using the current market situation for the sale of non-strategic assets.
- Opportunities in the German office market can be found in the modernization of rental space, which owing to its age, no longer meets today’s requirements.
- By modernizing of office space, a higher rental income can be achieved, as well as an increase in real estate value.

alstria faces these challenges with a long-term strategy that is characterized by high price discipline in terms of its acquisitions and by active asset and property management. Key aspects of this management approach are as follows:

- The focus is on the tenant. Only those who know the needs of their tenants will have successful letting activities in the long run.
- Continuous investments secure the quality of the assets. Increased value can only be realized through constant modernization measures and reduced vacancy.
- The potential of value enhancements is realized through comprehensive repositioning and asset development.
- Providing the best value for the money secures the letability of the assets. Many tenants are price sensitive, and only lessors who offer better value for money than the competition will be successful.

The aim of this strategy is the steady development of revenues and funds from operations (FFO).

Due to its active asset management approach and its high level of discipline regarding prices, alstria believes it has been able to achieve above-average returns in past years. The precondition that this will remain true for the future is supported by the following facts:

- alstria’s portfolio has a weighted average of unexpired lease terms – WAULT – of around 4.8 years. Approx. 60% of its rental income is derived from a limited number of high-quality tenants.

- alstria pursues a nontrading strategy and focuses on long-term value creation by conducting work on and within each building (i. e., asset and property management). At alstria, these activities are handled internally, which differentiates the Company from its main public and private competitors.
- A key element of alstria's strategy is supporting tenants in optimizing their real estate operating costs. From the tenants' point of view, real estate operating expenses are crucial in the decision-making process for rental agreements. alstria believes that optimizing costs using active asset and property management will offer new potential for successful letting activities.

## PORTRFOIO OVERVIEW

### Key metrics of the portfolio

Key metrics	Dec. 31, 2018	Dec. 31, 2017
Number of properties	118	116
Market value (EUR bn) <sup>1)</sup>	4.0	3.4
Annual contractual rent (EUR m)	197.0	202.0
Valuation yield (%, annual contractual rent / market value)	4.9	5.9
Lettable area (m <sup>2</sup> )	1,577,000	1,570,100
EPRA vacancy rate (%)	9.7	9.4
WAULT (years)	4.8	4.7
Average value per m <sup>2</sup> (EUR)	2,525	2,171
Average rent/m <sup>2</sup> (EUR / month)	12.25	12.06

<sup>1)</sup> Including fair value of owner-occupied properties.

### Real Estate Operations

Letting metrics (m <sup>2</sup> )	2018	2017	Change
New leases	110,800	98,300	12,500
Renewals of leases	92,500	147,100	-54,600
Total	203,300	245,400	-42,100

In the 2018 financial year letting activities amounted to approximately 203,300 m<sup>2</sup> (as measured by new leases and lease extensions).

The signings of the following lease contracts had a substantial impact on the positive development of the new leases:

Asset	City	Lettalbe area (m <sup>2</sup> )	Net rent/m <sup>2</sup> (EUR)	Net rent p.a. (EUR k)	Lease length (years)	Rent free (%) <sup>1)</sup>
T-Online-Allee 1	Darmstadt	29,100	12.00	4,200	7.5	0.0
Epplestrasse 225	Stuttgart	5,400	15.69	1,017	6.0	0.0
Elisabethstrasse 5–11	Düsseldorf	4,400 <sup>2)</sup>	20.23	1,068	10.6	1.6
Epplestrasse 225	Stuttgart	3,800	12.06	550	10.0	0.2
Am Wehrhahn 33	Düsseldorf	2,700	17.28	560	10.0	8.3
Am Wehrhahn 33	Düsseldorf	2,400	16.98	489	7.0	10.7
Nagelweg 4	Hamburg	2,100	12.86	324	10.0	0.0
Georg-Glock-Strasse 18	Düsseldorf	2,000	18.67	448	7.0	4.8
Süderstrasse 24	Hamburg	1,900	11.62	265	3.0	8.3
Am Wehrhahn 33	Düsseldorf	1,900	17.02	388	10.0	7.5
Heidenkampsweg 99–101	Hamburg	1,800	12.04	260	5.0	0.0
Gasstrasse 18	Hamburg	1,800	16.34	353	10.0	3.3
Breitwiesenstrasse 5–7	Stuttgart	1,700	12.11	247	5.0	0.0
Heidenkampsweg 99–101	Hamburg	1,600	12.86	247	10.0	1.6
Am Wehrhahn 33	Düsseldorf	1,500	16.17	291	10.0	8.3

<sup>1)</sup> In % of lease length.

<sup>2)</sup> A 2,500 m<sup>2</sup> extension of an existing lease and a 1,900 m<sup>2</sup> new lease.

For the 2019 financial year, reducing vacancy remains the operational focus.

### Portfolio Valuation and Regions

As of December 31, 2018, external appraisers (Colliers International Valuation UK LLP and Savills Advisory Services Germany GmbH & Co. KG) valued alstria's portfolio in line with International Financial Reporting Standards (IFRS) 13 requirements at market value. The valuation resulted in a total market value for the investment properties of EUR 3,985 million.\* Of this total market value, approx. EUR 3,878 million, or 97%, was located in core markets of the Company. The regional split is shown in the table below:

Total portfolio by region (% of market value)	Dec. 31, 2018	Dec. 31, 2017	Change (pp)
Hamburg	31	29	2
Rhine-Ruhr	29	29	0
Rhine-Main	19	21	-2
Stuttgart	12	12	0
Berlin	6	5	1
Others	3	4	-1

\* Inclusive assets held for sale.

## Tenants

The table below shows the ten largest tenants of alstria as of December 31, 2018:

alstria's main tenants (% of annual rent)	Dec. 31, 2018	Dec. 31, 2017	Change (pp)
Daimler AG	12	12	0
City of Hamburg	12	12	0
GMG Generalmietgesellschaft	8	10	-2
HOCHTIEF Aktiengesellschaft	5	4	1
Residenz am Dom gem. Betriebsgesellschaft mbH	2	2	0
Hamburger Hochbahn AG <sup>1)</sup>	2	0	2
ATOS Origin	2	1	1
City of Berlin	1	1	0
State of Baden-Württemberg	1	1	0
Württembergische Lebensversicherung AG	1	1	0
Bilfinger SE	0	3	-3
Others	54	53	1

<sup>1)</sup> Shown under the tenant 'City of Hamburg' as of December 31, 2017.

Furthermore, the focus is clearly on one asset class: approximately 90 % of the lettable area is office space.\*

The table below summarises the current lease expiry profile of the portfolio for the next three years:

Lease expiry profile (% of annual rent)	Dec. 31, 2018	Dec. 31, 2017	Change (pp)
2019	14.6	18.8	-4.2
2020	17.6	14.0	3.6
2021	13.2	10.0	3.2

## Transactions

alstria's investment decisions are based on both analyses of local markets and individual inspections of each asset. The latter focus on the attributes of location, size and quality (relative to those of direct competitors' assets) as well as the long-term potential for value growth. alstria's strategy is aimed at both increasing its portfolio to a critical size at every location and retracting from the markets that do not adhere to alstria's core investment focus. alstria performed the following transactions in the 2018 financial year:

\* Office and storage.

## Group Management Report

### Disposals

Asset	City	Disposal price (EUR k)	Gain to book value (EUR k) <sup>1)</sup>	Signing SPA	Transfer of benefits and burdens
Frankfurter Straße 71-75	Eschborn	16,200	500	Oct. 9, 2017	Jan. 31, 2019
Eschersheimer Landstraße 55	Frankfurt am Main	44,000	16,600	Dec. 21, 2017	Mar. 31, 2018
Lötzener Straße 3	Bremen	3,600	0	Jan. 26, 2018	June 30, 2018
Harburger Ring 17	Hamburg	10,000	750	Feb. 20, 2018	Aug. 31, 2018
Washingtonstraße 16	Dresden	28,080	11,080	Oct. 5, 2018	Dec. 31, 2018
Gathe 78	Wuppertal	9,120	120	Oct. 10, 2018	Jan. 1, 2019
Jägerbergstraße 1	Neuss	23,400	4,400	Oct. 29, 2018	Dec. 31, 2018
Brödermannsweg 5-9 <sup>2)</sup>	Hamburg	4,300	1,800 <sup>3)</sup>	Nov. 29, 2018	Feb. 28, 2019 <sup>4)</sup>
<b>Gesamte Verkäufe</b>		<b>138,700</b>	<b>35,250</b>		

<sup>1)</sup> Different from the position "Net result from the disposal of investment property" in the income statement. This position only contains contracts, which were signed in 2018 financial year and their transaction costs.

<sup>2)</sup> Partial sale of the residential building.

<sup>3)</sup> Disposal price less OMV of the residential building (percentage share of residential rents).

<sup>4)</sup> Expected.

### Acquisitions

Asset	City	Acquisition price (EUR k) <sup>1)</sup>	Signing SPA	Transfer of benefits and burdens
Eichwiesenring 1	Stuttgart	28,000	Dec. 20, 2017	Apr. 1, 2018
Sonninstrasse 26-28	Hamburg	54,584	Dec. 21, 2017	Feb. 1, 2018
Taunusstrasse 45-47	Frankfurt	25,100	June 7, 2018	Aug. 1, 2018
Gustav-Nachtigal-Strasse 5	Wiesbaden	7,675	July 27, 2018	Sept. 1, 2018
Schinkelstrasse 20	Berlin	9,400	Aug. 27, 2018	Nov. 1, 2018
Lehrter Strasse 17	Berlin	8,470	Dec. 12, 2018	Feb. 1, 2019
Uhlandstrasse 85 / Pfalzburger Strasse 41-42	Berlin	42,400	Dec. 18, 2018	Dec. 31, 2018
Handwerkstrasse 4 / Breitwiesenstrasse 27	Stuttgart	7,350	Dec. 18, 2018	Mar. 1, 2019 <sup>2)</sup>
<b>Total acquisitions</b>		<b>182,979</b>		

<sup>1)</sup> Excluding transaction costs.

<sup>2)</sup> Expected.

## Refurbishment projects

alstria has achieved progress with respect to the following development projects:

### › Besenbinderhof 41, Hamburg

The listed office building from 1927 was built for the Public Health Department and acquired by alstria in 2006 as part of the Primo-portfolio. The property is located close to the central station in Hamburg and is characterized by its clinker front, with narrow clinker pillars. In the front part, the building has a basement and five floors. The building was built in typical 1920s style.

As the offices do not meet today's requirements in terms of space flexibility or the building's technical equipment, alstria decided to fundamentally revitalize the building. This current planning includes the core removal of the office space, except for the shell of the building. Over the course of this refurbishment, the original outer appearance is to be rebuilt by adding one and a half floors to the main building, which is still subject to the approval of the authorities. The main entrance doors and staircase houses will keep their 1920s charm. Beside the main entrance, two new entrances will be created that resemble the main entrance in terms of style and materials.

The construction work is expected to be completed by mid-2020, and began in January 2019.

### › Amsinckstrasse 28 and 34, Hamburg

The buildings Amsinckstrasse 28 and 34 are located in the center of Hamburg between the Kontorhausviertel, HafenCity, and the City Süd. The properties were built in 1991 and 1993 for official use by the City of Hamburg. Amsinckstrasse 28 has around 8,500 m<sup>2</sup> of total rental space and an underground carpark with 70 parking spaces. In contrast, Amsinckstrasse 34 has around 6,600 m<sup>2</sup> of total rental space as well as an underground carpark with 64 parking spaces.

Since the public authorities moved out at the end of October 2017, the buildings have been undergoing extensive refurbishment. The aim is to convert the buildings from single-tenant to multi-tenant utilization with totally new office areas that meet today's standards. The technical equipment is also being entirely renewed. The layout of the rental areas provides high flexibility for small and large rental areas. The office areas will be highly flexible and modern to cater for high demands concerning the design standards.

The refurbishment is expected to be finished by end-2019. Even before completion, the first rental success in house number 34 with more than approximately 1,100 m<sup>2</sup> has already been achieved.

### › Gustav-Nachtigal-Strasse 3, 4, 5, Wiesbaden

The office skyscraper at Gustav-Nachtigal-Strasse 3, was built in 1984 and contains approximately 18,455 m<sup>2</sup> of total rental space as well as an underground carpark with around 160 parking spaces and 65 outside parking spaces. The property is located about five minutes east of Wiesbaden Main Station. It consists of eight upper and two basement floors. On the 8th floor there is a roof terrace with a view over Wiesbaden. The ground floor has a spacious foyer, a general conference area, offices and a large canteen.

After more than 30 years of single-tenant utilization, neither the appearance nor the office workstations meet today's requirements. The entrance as well as all usable areas and offices are being redesigned. The new rental units are being developed floor by floor via the central core with elevators, three staircases, and newly arranged access doors, to enable flexible utilization.

Due to negotiations with various tenants with substantial space requirements alstria decided to include two of the adjacent buildings at Gustav-Nachtigal-Strasse 4 and 5 in a campus concept and develop them simultaneously. Number 5 contains approximately 7,610 m<sup>2</sup> of total rental space and consists of ten floors. Number 4 with 768 m<sup>2</sup> of total rental space and two floors is smaller.

The revitalization of the buildings combined with the design of a campus is currently in the planning phase.

› Carl-Reiß-Platz 1–5, Mannheim

The three linked buildings, which consists of one office skyscraper and two single office buildings, are located in the office and residential area Schwetzingergasse in Mannheim. They were built in 1959 – 1979 and contain approximately 17,500 m<sup>2</sup> of total rental space. The skyscraper consists of 14 upper and two basement floors, while the area of the other two buildings distributes to three upper and two basement floors or rather eight upper and two basement floors, respectively. Apart from the 78 parking spaces on the plot, there are 266 additional parking lots in a separate underground carpark below the Carl-Reiß-Platz.

The tenants have moved out and as the office spaces no longer meet current requirements regarding building services and flexibility, alstria has decided to fundamentally revitalize the building.

The revitalization of the building is currently in the planning phase. Start of construction is expected in the second quarter of 2019.

In 2018, alstria invested around EUR 86 million in ongoing refurbishment projects. Around EUR 36 million of this amount was for the main development projects, and the remainder of EUR 50 million was invested in value-increasing tenant-improvement measures. The main part of the 2018 capital expenditure investment was linked to the assets Momentum and Am Seestern in Düsseldorf, and the assets Bieberhaus, Gasstrasse 18, Heidenkampsweg 99–101 and Steinstrasse 5–7 in Hamburg. Within the next three years, alstria is planning to invest around EUR 200 million into its portfolio through refurbishment measures. This investment plan is part of alstria's ongoing asset-value-enhancement program. The volume of these investments, however, also depends on ongoing lease negotiations with existing and potential tenants.

## FINANCIAL ANALYSIS

The 2018 financial year developed as expected for alstria. alstria's original revenue\* and FFO forecasts for 2018 increased as of June 30, 2018, for the most part, due to the deviation of expected transfers of benefits and burdens of the purchased and sold assets as well as the indexation of substantial lease contracts. As a result, the revenue forecast increased by EUR 3 million, from EUR 187 million to EUR 190 million, for the 2018 financial year. As a consequence, the FFO forecast increased by EUR 3 million from EUR 110 million to EUR 113 million. Due to the Company's good letting performance, its 2018 revenues of around EUR 193 million were slightly higher than the adjusted forecast of EUR 190 million. The FFO (after minorities) amounted to EUR 115 million in the reporting period, which is also in line with the forecasted level of EUR 113 million for the alstria Group.

## EARNINGS POSITION

### Funds from operations (FFO)

In 2018, FFO amounted to EUR 118,027 k before minorities or EUR 114,730 k after minorities, compared to EUR 117,550 k before minorities or EUR 113,834 k after minorities in 2017. The FFO margin increased to 61.1% (i. e., by 0.4 percentage points; before minorities). As a result, FFO per share was EUR 0.67 before minorities or EUR 0.65 after minorities in the 2018 financial year (compared to EUR 0.76 before minorities or EUR 0.74 after minorities in 2017).\*\*

The slight increase of the overall FFO mainly resulted from a better net financial result, a better share of the result of the joint venture as well as a decrease in other operating expenses compared to 2017. Small opposite effects were the lower net rental income and other operating income as well as slightly higher personnel expenses compared to the previous year.

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\* This involves in this passage revenues without revenues from service charge income.

\*\* This is calculated using the number of shares as of December 31, 2018, which was 177,416,497 (December 31, 2017: 153,961,654).

## Group Management Report

EUR k	IFRS P&L	Adjustments	FFO 2018	FFO 2017
Revenues	193,193	-	193,193	193,680
Revenues from service charge income	39,160	-	39,160	37,387
Real estate operating expenses	-63,285	-	-63,285	-58,156
<b>Net rental income</b>	<b>169,068</b>	-	<b>169,068</b>	<b>172,911</b>
Administrative expenses	-8,834	794	-8,040	-7,543
Personnel expenses	-15,910	1,304	-14,606	-12,544
Other operating income	10,656	-9,728	928	3,319
Other operating expenses	-13,746	12,752	-994	-3,703
Net gain/loss from fair value adjustments on investment property	398,954	-398,954	-	-
Gain/loss on disposal of investment properties	14,887	-14,887	-	-
<b>Net operating result</b>	<b>555,075</b>	<b>-408,719</b>	<b>146,356</b>	<b>152,440</b>
Net financial result	-29,497	1,238	-28,259	-32,887
Share of the result of joint venture	-70	-	-70	-2,003
Net result from fair value adjustments on financial derivatives	2,452	-2,452	-	-
<b>Pre-tax income / FFO (before minorities)<sup>1)</sup></b>	<b>527,960</b>	<b>-409,933</b>	<b>118,027</b>	<b>117,550</b>
Income tax expenses	-546	546	-	-
<b>Consolidated profit</b>	<b>527,414</b>	<b>-409,387</b>	<b>118,027</b>	<b>117,550</b>
Minority interest	-	-3,297	-3,297	-3,716
<b>Consolidated profit / FFO (after minorities)</b>	<b>527,414</b>	<b>-412,684</b>	<b>114,730</b>	<b>113,834</b>
 <b>Maintenance and reletting</b>			<b>-50,100</b>	<b>-40,700</b>
<b>Adjusted funds from operations (AFFO)<sup>2)</sup></b>			<b>64,630</b>	<b>73,134</b>
Number of shares outstanding (k)			177,416	153,962
 <b>FFO per share (EUR)</b>			<b>0.65</b>	<b>0.74</b>
<b>AFFO per share (EUR)</b>			<b>0.36</b>	<b>0.48</b>

<sup>1)</sup> (A)FFO is not a measure of operating performance or liquidity under generally accepted accounting principles, in particular IFRS, and it should not be considered an alternative to the Company's income or cash flow measures as determined in accordance with IFRS. Furthermore, there is no standard definition for (A)FFO. Thus, alstria's (A)FFO values and the measures with similar names presented by other companies may not be comparable.

<sup>2)</sup> AFFO is equal to FFO after adjustments are made for capital expenditures used to maintain the quality of the underlying investment portfolio and expenses for lease-ups.

## Net operating result

alstria closed the 2018 financial year with a net operating result (before financing costs and taxes) of EUR 555,075 k, compared to EUR 348,008 k for the previous year.

As compared to the previous year, alstria had a slightly higher other operating result, and a higher result from fair value adjustments to investment property. The following table shows the main figures of the income statements for the 2018 and 2017 financial years:

EUR k	2018	2017
Revenues	193,193	193,680
Net rental income	169,068	172,911
Administrative and personnel expenses	-24,744	-21,856
Other operating result	-3,090	-4,232
<b>Operating income</b>	<b>141,234</b>	<b>146,823</b>
Net gain/loss from fair value adjustments to investment property	398,954	181,492
Gain/loss from disposals of investment properties	14,887	19,693
<b>Net operating result</b>	<b>555,075</b>	<b>348,008</b>

### Revenues

In the reporting period, revenues totaled EUR 193,193 k (compared to EUR 193,680 k in 2017).

### Real estate operating expenses

Real estate operating expenses consist of recoverable and non-recoverable operating costs and amounted to EUR 63,285 k (compared to EUR 58,156 k in 2017). The expense ratio of non-recoverable operating costs increased slightly from 11.2% in 2017 to 12.5% in 2018. Thus, the Group's net rental income decreased by EUR 3,843 k to EUR 169,068 k (compared to EUR 172,911 k in 2017).

### Administrative and personnel expenses

Administrative expenses increased by EUR 801 k to EUR 8,834 k (compared to EUR 8,033 k in 2017), which was due to higher depreciation in owner-occupied properties and IT infrastructure spending. Personnel expenses were EUR 15,910 k for the reporting period (compared to EUR 13,823 k in 2017). The 2018 increase was mostly a result of an increase in salaries by EUR 1,308 k to EUR 7,937 k, due to an increased number of employees (from 121 employees as of December 31, 2017 to 149 employees as of December 31, 2018). Moreover, the bonuses increased by EUR 353 k to EUR 2,338 k (compared to EUR 1,986 k in 2017). Total administrative and personnel expenditures were around 12.8% of total revenues and 0.6% of the value of the market value of the portfolio (compared to 11.3% and 0.6% in 2017, respectively).

### Other operating result

alstria's other operating result amounted to EUR -3,090 k during the reporting period (compared to EUR -4,232 k in 2017). A EUR 517 k increase in income mainly resulted from EUR 1,765 k higher income from the reversal of accrued liabilities. A EUR 625 k decrease in expenses mainly resulted from EUR 1,160 k less property disposal costs during the reporting period.

### Net result from fair value adjustments on investment property

In the 2018 financial year, the net result from fair value adjustments on investment property was EUR 398,954 k (compared to EUR 181,492 k in 2017). The growth was mainly linked to the success of the asset management in the reporting year and the increase in value due to refurbishments of the assets as well as the higher demand for real estate.

### Net result on disposals of investment property

In 2018, alstria was able to achieve a positive result of EUR 14,887 k from the disposal of investment properties. The realized disposal gains mainly resulted from the sale of the Washingtonstraße asset in Dresden.

### Net financial result

EUR k	2018	2017
Interest expenses, corporate bonds	-21,138	-23,314
Interest expenses, convertible bond	-1,783	-5,357
Interest expenses, other loans	-3,433	-3,585
Interest result Schultschein	-3,186	-3,248
Other interest expenses	-282	-480
<b>Financial expenses</b>	<b>-29,822</b>	<b>-35,984</b>
Financial income/interest income	745	816
Other financial expenses	-420	-32,540
<b>Net financial result</b>	<b>-29,497</b>	<b>-67,708</b>

The financial expenses decreased by EUR 6,162 k to EUR 29,822 k due to both the lower quantum of debt in the 2018 financial year and a lower average interest rate.

The net financial result for the year decreased by EUR 38,211 k to EUR 29,497 k compared to the prior-year period. This development is the result of existing bonds in the 2017 financial year being repurchased with a nominal value of EUR 348,200 k and a new bond with a longer maturity and a nominal value of EUR 350,000 k being placed on the market. The premium for the repurchase of the bonds in the amount of EUR 29,172 k was included in the other financial expenses in the previous year. Furthermore, in 2017 financial year the other financial result was burdened by the reversal of the accrued incidental costs of the bond, which were repurchased in the amount of EUR 2,809 k in the previous year.

For details on the new loans, also refer to the 'Financial management' section starting on page 18.

### **Share of the result of joint venture companies**

In 2018, alstria's share of the result of joint venture was EUR -70 k (compared to EUR 28,118 k in 2017). The share of the result in the previous year was mainly attributable to the sale of the Kaisergalerie asset in Hamburg.

### **Net result from fair value adjustments on financial derivatives**

To minimize the impact of interest-rate volatility on profits and losses, alstria uses financial derivatives to hedge on floating interest rate loans. Due to the termination of an interest rate cap in the 2018 financial year, the nominal amount of the interest-hedging instruments decreased from EUR 152,630 k to EUR 95,892 k.

The net result from fair value adjustments on these financial derivatives amounted to EUR 2,452 k in 2018 (compared to EUR -9,334 k in 2017).

While no appreciable valuation result arose in the 2018 financial year from the interest rate derivatives financial instruments (EUR -14 k), the valuation of the embedded derivative linked to the convertible bond resulted in a gain of EUR 2,466 k. The fair value of the embedded derivative was largely determined by the performance of the share price of alstria, as it affected the market value of the potential repayment obligation in the event of conversion of the convertible bond. With the end of its term on June 14, 2018 all units of the convertible bond have been converted into equity instruments of the Company. Since the conversion, the embedded derivative no longer exists.

Further details and a tabular reconciliation can be found in section 6.5 of the consolidated financial statements.

### **Consolidated net result**

The consolidated net result amounted to EUR 527,414 k (compared to EUR 296,987 k in 2017) in the reporting period; hence, it increased by EUR 230,427 k. Overall, lower net rental income and decreased share of earnings from joint venture companies were overcompensated by an increase in net result from fair value adjustments of investment properties, a positive net result from fair value adjustments on financial derivatives as well as an increase in net financial result. Undiluted earnings per share amounted to EUR 3.02 for the reporting period (compared to EUR 1.94 in 2017).

REIT-AGs are fully exempt from the German corporate income tax and trade tax. However, tax obligations can arise to a minor extent for REIT subsidiaries.

## FINANCIAL AND ASSET POSITION

### Investment properties

The total value of investment properties as of December 31, 2018 was EUR 3,938,864 k, compared to EUR 3,331,858 k at the beginning of 2018. This increase in investment property value was mainly due to the increase in value of the investment portfolio following the revaluation (EUR 398,954 k) as well as the result of the acquisition of six assets. This increase was slightly levelled out by the sale of six assets. Two of the assets are reported under assets held for sale in the balance sheet as of December 31, 2018.

EUR k	
<b>Investment property as of December 31, 2017</b>	<b>3,331,858</b>
Investments	86,420
Acquisitions	161,659
Acquisition costs	10,716
Disposals	-48,850
Transfers to assets held for sale	-11,408
Transfers to property, plant and equipment (owner-occupied properties)	-307
Transfers out of property, plant and equipment (owner-occupied properties)	7,878
Net loss/gain from fair value adjustments on investment property	398,954
<b>Investment portfolio as of December 31, 2018</b>	<b>3,936,920</b>
Advance payments	1,944
<b>Investment property as of December 31, 2018</b>	<b>3,938,864</b>
Carrying amount of owner-occupied properties	17,585
Fair value of assets held for sale	29,620
Interests in joint ventures	8,589
<b>Carrying amount of immovable assets</b>	<b>3,994,658</b>

### Cash position

Cash and cash equivalents increased by EUR 30,821 k from EUR 102,078 k to EUR 132,899 k in the reporting period. A positive cash flow of EUR 119,014 k was generated from operating activities. Financing activities have shown net cash inflows of EUR 48,010 k. The increase was mainly driven by a capital increase in January 2018, resulting in a cash inflow of EUR 190,461 k. On the other hand, the net cash used in financing activities was affected by the dividend payment of EUR 92,170 k and the cash flows from issuing and repayment of loans, resulting in net cash outflows of EUR 48,088 k. Investing activities amounted in cash outflows of EUR 136,203 k.

## Equity metrics

	Dec. 31, 2018	Dec. 31, 2017	Change
Equity (EUR k)	2,684,087	1,954,660	37.3 %
NAV per share (EUR)	15.13	12.70	19.1 %
Equity ratio (%)	64.2	54.5	9.7 pp
G-REIT equity ratio (%) <sup>1)</sup>	67.2	57.1	10.1 pp

<sup>1)</sup> This is defined as total equity divided by the carrying amount for immovable assets. The minimum requirement according to G-REIT regulations is 45 %.

Compared to December 31, 2017, equity increased by EUR 729,427 k as of December 31, 2018. Of this increase, EUR 190,461 k was contributed to the capital increase, which took place in January 2018, and EUR 98,562 k was contributed to the conversions of the convertible bond taking place within the first half of 2018. The period's profit contributed to a higher equity of EUR 527,414 k. On the other hand, dividend payments in May decreased the equity by EUR 92,170 k.\*

## Liabilities minority interests

Liabilities due to minority interests represent the limited-partner capital of noncontrolling shareholders in alstria office Prime. In line with IFRS requirements, the share capital owned by minority shareholder in German partnerships is treated as a liability on the Company's balance sheet.

## Financial management

alstria's financial management is carried out at the corporate level. Individual loans and corporate bonds are taken out at both the property and the portfolio levels. alstria's main financial goal is to establish a sustainable long-term financial structure. Therefore, alstria diversifies its financing sources and strives for a balanced maturity profile to enable coordinated and constant refinancing.

All shares of the convertible bond as of the prior year's balance sheet date, with a notional amount of EUR 73,500 k, were converted on June 14, 2018. The conversion resulted in the issue of 7,987,972 new shares by making use of the conditionally increased capital provided for such purposes (Conditional Capital 2013).

On September 28, 2018, alstria drew down on a new loan with a nominal amount of EUR 60,000 k and used the proceeds to simultaneously repay a loan, which had amounted to a notional amount of EUR 57,975 k as of December 31, 2017.

On November 6, 2018, the floating-rate loan shares of the Schultschein were repaid with a notional amount of EUR 35,000 k before the end of the term, so that the Schultschein has a notional amount of EUR 115,000 k at the end of the reporting period (December 31, 2017: EUR 150,000 k).

Furthermore, on December 28, 2018, alstria repaid a loan, which had amounted to a notional amount of EUR 15,113 k as of December 31, 2017.

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\* See also the consolidated statement of changes in equity on page 56.

## Group Management Report

The loan facilities in place as of December 31, 2018, are as follows:

<b>Liabilities</b>	<b>Maturity</b>	<b>Principal amount drawn as of December 31, 2018 (EUR k)</b>	<b>LTV as of December 31, 2018 (%)</b>	<b>LTV covenant (%)</b>	<b>Principal amount drawn as of December 31, 2017 (EUR k)</b>
Loan #1	June 28, 2024	67,000	37.0	65.0	67,000
Loan #2 <sup>1)</sup>	Apr. 30, 2021	-	-	-	57,975
Loan #3	Mar. 28, 2024	45,900	38.1	75.0	45,900
Loan #4	June 30, 2026	56,000	37.4	65.0	56,000
Loan #5 <sup>2)</sup>	July 31, 2021	-	-	-	15,113
Loan #6	Sept. 29, 2028	60,000	50.0	-	-
<b>Total secured loans</b>		<b>228,900</b>	<b>34.8</b>	-	<b>241,988</b>
Bond #1	Mar. 24, 2021	326,800	-	-	326,800
Bond #2	Apr. 12, 2023	325,000	-	-	325,000
Bond #3	Nov. 15, 2027	350,000	-	-	350,000
Convertible bond	June 14, 2018	-	-	-	73,500
Schuldschein 10y/fixed	May 6, 2026	40,000	-	-	40,000
Schuldschein 7y/fixed	May 8, 2023	37,000	-	-	37,000
Schuldschein 4y/fixed	May 6, 2020	38,000	-	-	38,000
Schuldschein 7y/variable <sup>3)</sup>	May 8, 2023	-	-	-	17,500
Schuldschein 4y/variable <sup>4)</sup>	May 6, 2020	-	-	-	17,500
Revolving credit line	June 15, 2020	-	-	-	-
<b>Total unsecured loans</b>		<b>1,116,800</b>	-	-	<b>1,225,300</b>
<b>Total</b>		<b>1,345,700</b>	<b>33.8</b>	-	<b>1,467,288</b>
<b>Net LTV</b>			<b>30.4</b>		

<sup>1)</sup> Loan agreement terminated, refinancing (Loan #6) occurred on September 28, 2018.

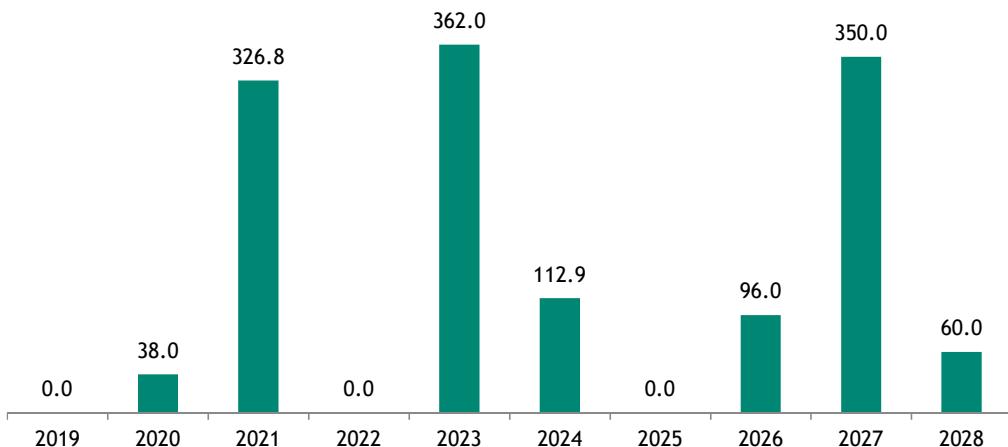
<sup>2)</sup> Loan agreement terminated, refinancing occurred on December 28, 2018.

<sup>3)</sup> Loan agreement terminated, refinancing occurred on November 6, 2018.

<sup>4)</sup> Loan agreement terminated, refinancing occurred on November 6, 2018.

<b>Cash cost of debt</b>	<b>Dec. 31, 2018</b>			<b>Dec. 31, 2017</b>		
	<b>Nominal amount (EUR k)</b>	<b>Ø cost of debt (%)</b>	<b>Ø maturity (years)</b>	<b>Nominal amount (EUR k)</b>	<b>Ø cost of debt (%)</b>	<b>Ø maturity (years)</b>
Bank debt	228,900	1.1	7.1	241,988	1.3	6.0
Bonds	1,001,800	1.9	5.3	1,001,800	1.9	6.3
Schuldschein	115,000	2.2	4.5	150,000	2.0	5.1
Convertible bond	-	-	-	73,500	2.8	0.5
<b>Total</b>	<b>1,345,700</b>	<b>1.8</b>	<b>5.5</b>	<b>1,467,288</b>	<b>1.9</b>	<b>5.8</b>

**Maturity profile of financial debt as of December 31, 2018<sup>1)</sup> in EUR million**



<sup>1)</sup> Excluding regular amortization.

**Compliance with and calculation of the Covenants, referring to §11 of the Terms and Conditions\***

In case of the incurrence of new Financial Indebtedness for purposes other than the refinancing of existing liabilities, alstria needs to comply with the following covenants:

- The ratio of Consolidated Net Financial Indebtedness to Total Assets will not exceed 60 %
- The ratio of Secured Consolidated Net Financial Indebtedness to Total Assets will not exceed 45 %
- The ratio of Unencumbered Assets to Unsecured Consolidated Net Financial Indebtedness will be more than 150 %

In the third quarter of 2018, alstria incurred further Financial Indebtedness in the amount of EUR 60,000 k primarily to refinance existing Secured Financial Indebtedness (for further information, please refer to the loan overview on page 19). The compliance with the covenant was reported in the consolidated interim statement as of September 30, 2018.

\* The following section refers to the Terms and Conditions of the Fixed Rate Notes, issued on November 24, 2015, April 12, 2016, and on November 15, 2017 as well as to the Terms and Conditions of the Schultschein issued on May 6, 2016 (for further information, please refer to [www.alstria.com](http://www.alstria.com)). Capitalised terms have the meanings defined in the Terms and Conditions.

Furthermore, alstria needs to maintain a ratio of the Consolidated Adjusted EBITDA over Net Cash Interest of no less than 1.80 to 1.00. The calculation and publication of the ratio should be done at every reporting date following the issuance of the bond or the Schultschein, respectively, starting after the fifth reporting date. The publication first took place in the annual report 2016.

EUR k	Cumulative 2018
<b>Earnings Before Interest and Taxes (EBIT)</b>	<b>557,458</b>
Net profit/loss from fair value adjustments to investment property	-398,954
Net profit/loss from fair value adjustments to financial derivatives	-2,452
Profit/loss from the disposal of investment property	-14,887
Other adjustments <sup>1)</sup>	6,323
Fair value and other adjustments in joint venture	-
<b>Consolidated Adjusted EBITDA</b>	<b>147,488</b>
Cash interest and other financing charges	-25,914
One-off financing charges	-
<b>Net Cash Interest</b>	<b>-25,914</b>
<b>Consolidated Coverage Ratio (min. 1.80 to 1.00)</b>	<b>5.7</b>

<sup>1)</sup> Depreciation and amortization and nonrecurring or exceptional items.

As of December 31, 2018, no covenants under the loan agreements and/or the terms and conditions of the bonds and Schultschein have been breached.

### Long-term loans

Long-term loans decreased by 3.3%, from EUR 1,381,965 k as of December 31, 2017, to EUR 1,336,090 k as of December 31, 2018. The decrease resulted essentially from the repayment of the floating rate Schultschein in the amount of EUR 35,000 k in November 2018. Moreover, in the fourth quarter of the 2018 financial year, alstria completely repaid a loan, which had amounted to EUR 15,113 k as of December 31, 2017. This was contrasted by the closing of a new loan in the amount of EUR 60,000 k in the third quarter of 2018 and the using of the proceeds to simultaneously repay a loan, which had amounted to a notional amount of EUR 57,975 k as of December 31, 2017.

### Short-term loans

Short-term loan obligations amounted to EUR 14,171 k as of the reporting date (prior year: EUR 86,450 k) and hence were EUR 72,279 k lower than as of the previous reporting date. The decrease resulted essentially from the conversion of the convertible bond in the second quarter of the 2018 financial year, which had amounted to EUR 73,500 k as of December 31, 2017. Furthermore, short-term loans were mainly influenced by accrued interest for the bonds (December 31, 2018: EUR 11,344 k; December 31, 2017: EUR 11,344 k) and the Schultschein (December 31, 2018: EUR 1,654 k; December 31, 2017: EUR 1,752 k), as of December 31, 2018.

### **Current liabilities**

Current liabilities amounted to EUR 90,777 k (December 31, 2017: EUR 187,703 k) and mainly consisted of short-term loan obligations of EUR 14,171 k (December 31, 2017: EUR 86,450 k) and of the current liabilities to noncontrolling shareholders of EUR 47 k (December 31, 2017: EUR 47 k). Another EUR 5,945 k of this total was attributable to income tax obligations (December 31, 2017: EUR 13,675 k) that arose at the level of the consolidated alstria office Prime companies. Moreover, current liabilities include trade payables (December 31, 2018: EUR 4,400 k; December 31, 2017: EUR 7,268 k) and other current liabilities (December 31, 2018: EUR 60,207 k; December 31, 2017: EUR 49,204 k). The other current liabilities include liabilities from the real estate transfer tax (December 31, 2018: EUR 13,902 k; December 31, 2017: EUR 11,869 k), which were incurred at the alstria office Prime level, provisions for outstanding invoices (December 31, 2018: EUR 16,595 k; December 31, 2017: EUR 18,116 k), prepayment of rents (December 31, 2018: EUR 2,564 k; December 31, 2017: EUR 3,313 k), and tenants deposits (December 31, 2018: EUR 6,353 k; December 31, 2017: EUR 5,414 k).

## CORPORATE MANAGEMENT

alstria proactively focuses on the following key financial performance indicators: revenues\* and FFO. Revenues mainly comprise rental income derived from the Company's leasing activities. FFO is the funds from operations and is derived from real estate management. It excludes valuation effects and other adjustments, such as non-cash expenses/income and non-recurring effects.\*\*

alstria's original revenue and FFO forecasts for 2018 increased in the most part due to the deviation of expected transfers of benefits and burdens of the purchased and sold assets as well as the indexation of substantial lease contracts. As a result, the revenue forecast increased by EUR 3 million from EUR 187 million to EUR 190 million for the 2018 financial year. As a consequence, the FFO forecast increased by EUR 3 million from EUR 110 million to EUR 113 million. Due to the Company's good letting performance in the 2018 financial year, its revenues were approx. EUR 193 million and therefore slightly higher than the adjusted forecast of EUR 190 million. In the 2018 financial year, FFO totaled EUR 115 million, which is in line with the adjusted forecast of EUR 113 million.

The Company also monitors the progress of its Net LTV, its G-REIT equity ratio, net-debt / EBITDA, and its liquidity, whereby these are not classified as for the internal control of the Company most relevant performance indicators. alstria's Net LTV was 30.4% as of December 31, 2018, compared to 40.0% at the end of the 2017 financial year. The G-REIT equity ratio was 67.2%, compared to 57.1% in the previous year and the minimum statutory rate of 45%. The net-debt / EBITDA was 8,3 as of December 31, 2018, compared to 9,1 as of December 31, 2017.

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\* This involves in this passage revenues without revenues from service charge income.  
\*\* For further details, please refer to page 13.

## RISK AND OPPORTUNITY REPORT

### RISK REPORT

#### **Risk management**

alstria has implemented a Group-wide system for structured risk management and early warning in accordance with Section 91 para. 2 of the German Stock Corporation Act (AktG). All risks are recorded, evaluated, and monitored on at least a quarterly basis. The aim of alstria's risk management strategy is to minimize or, where possible, completely avoid — the risks associated with entrepreneurial activity in order to safeguard the Company against losses and against risks to the Company's going concerns. The Company's risk identification allows for the early identification of potential new risks on an ongoing basis. Risk mitigation measures are defined so that alstria can undertake the necessary steps to circumvent any identified risks (i. e., to insure, diversify, manage, or avoid those risks).

For alstria, risk management involves the targeted securing of existing and future potential for success and improvements in the quality of the Company's planning processes. alstria's risk-management system is an integral part of its management and control system. The risk-management system is integrated into its regular reporting to the Management Board and Supervisory Board, which ensures that risks are dealt with proactively and efficiently. The risk-management system thereby focuses on full coverage of the risks. The identification and assessment of opportunities is not part of alstria's risk-management system.

#### ***Structure of the risk-management system***

Risk management is coordinated independently from individual business divisions. The risk manager prepares a risk report on a quarterly basis and provides it to the Management Board. This report is based on the reports from the risk owners — those who are responsible for particular areas of risk.

alstria faces various areas of risk within the context of its business activities; these are divided into the following four risk categories:

- > Strategic risks
- > Operational risks
- > Compliance risks
- > Financial risks

Each risk category is assigned to a so-called risk owner. Inherent to the risk owner's position in the Company is that he or she represents the area in which the identified risks could materialize; the risk owner is also responsible for the assigned risk category:

alstria's areas of risk and risk categories	
Risk category	Risk owner
Strategic risks	Finance & Controlling
Operational risks	Real Estate Operations
Compliance risks	Legal
Financial risks	Finance & Controlling

The risk report presents the findings that are observed during risk identification, assessment, evaluation and monitoring. At the same time, the comprehensive documentation of this report ensures an orderly assessment, which the responsible departments and the Supervisory Board conduct.

In addition, the divisions report their respective risks and opportunities to the Management Board in weekly meetings.

#### ***Risk valuation***

Risks are assessed according to their likelihood of occurrence and their magnitude of impact. Accordingly, they are categorized as 'high' 'medium' or 'low'. The potential damage includes any potential negative deviation from alstria's forecasts and objectives with regard to its total comprehensive income.

Classification according to likelihood	
Probability/liability of occurrence	Description
1 to 15%	very unlikely
16 to 35%	unlikely
36 to 55%	possible
56 to 75%	likely
76 to 99%	highly likely

According to this framework, a very unlikely risk is defined as one that will occur only in exceptional circumstances, and a highly likely risk as one that can be expected to occur within a specified period of time.

**Classification according to degree of impact**

Expected impact in EUR m	Degree of impact
Between 0.0 and 0.6	minor
Between 0.6 and 1.5	low
Between 1.5 and 6.0	moderate
Between 6.0 and 15.0	high
Greater than 15.0	critical

Based on the likelihood that a specific risk event will occur and the impact it would have on alstria's business, financial position, profit, and cash flow, each risk is classified as 'high', 'medium' or 'low' according to the following matrix.

Risk classification					
Probability	L	M	H	H	H
highly likely	L	M	H	H	H
likely	L	M	M	H	H
possible	L	L	M	M	H
unlikely	L	L	L	M	M
very unlikely	L	L	L	L	M
Degree of impact	minor	low	moderate	high	critical

L = low risk.

M = medium risk.

H = high risk.

In 2018, the Company's risk-management system was not exposed to any significant changes from the previous year.

**Key characteristics of the accounting-related internal control and risk-management system**

Regarding the reporting process, the objective of the control and risk-management system is to make sure that reporting is consistent and in line with legal requirements, generally accepted accounting principles, the International Financial Reporting Standards (IFRS), and internal guidelines. Only then can it provide true and reliable information to the recipients of the annual financial statements. To this end, alstria has implemented an internal control and risk-management system that combines all relevant principles, processes, and measures.

The internal control system consists of two areas: control and monitoring. In organizational terms, the divisions' treasury, controlling, and accounting divisions are responsible for control.

The monitoring measures consist of elements that are incorporated in the process as well as independent external elements. The integrated measures include process-related, system-based technical controls such as the 'dual control principle' (which is applied universally) and software-based checking mechanisms. In addition, qualified employees with the appropriate expertise and specialized departments such as controlling, legal, and treasury perform monitoring and control functions as part of the various processes.

The Management Board and the Supervisory Board (in particular, the Audit Committee) are involved in the monitoring system. These groups perform various checks that are independent of the Company's processes. The internal audit function is transferred to an external auditing firm.

Accounting acts as the central interlocutor for special technical questions and complex reporting issues. If required, external experts (auditors, qualified accounting specialists, etc.) are consulted.

In addition, monitoring related to accounting is executed by the Company's controlling department. All items and main accounts for the consolidated companies' income statements and balance sheets, as well as the consolidated income statements and the consolidated statement of financial position, are reviewed regularly for accuracy and plausibility. This is conducted both for the consolidated financial statements and for alstria's individual financial statement. Accounting-related data are monitored monthly or quarterly, depending on the frequency of their preparation.

The accounting-related risk-management system forms part of the alstria Group's risk-management system. The risk owner responsible for the finance area monitors the risks that are relevant to the accuracy of accounting-related data. Risks are identified on a quarterly basis and are assessed and documented by the risk-management committee. Appropriate action is taken to monitor and optimize accounting-related risks throughout the Group.

#### **Description and assessment of risks**

In accordance with alstria's risk-management system, all material risks inherent to the future development of the Group's position and performance are described in this chapter. The individual risks that are described relate to the planning period from 2019 to 2021.

## Group Management Report

### Corporate risks

	Likelihood	Risk impact	Risk level	Change since prior year
<b>Strategic risks</b>				
Market environment risks	unlikely	moderate	L	unchanged
Risks in relation to changes to the legal environment	unlikely	moderate	L	unchanged
Risks due to inefficient organizational structures	unlikely	moderate	L	unchanged
<b>Operational risks</b>				
Maintenance risks	possible	high	M	unchanged
Refurbishment projects risks	possible	high	M	unchanged
Vacancy risk	unlikely	high	M	unchanged
Risks relating to property transactions	unlikely	moderate	L	unchanged
HR risks	possible	low	L	unchanged
IT risks	possible	low	L	unchanged
Shortfalls of rental payment risks	very unlikely	high	L	unchanged
Environmental risks	unlikely	low	L	unchanged
<b>Compliance risks</b>				
Risks resulting from not complying with G-REIT legislation	unlikely	moderate	L	unchanged
Risks arising from fraud or non-compliance	unlikely	moderate	L	unchanged
Litigation risks	unlikely	moderate	L	unchanged
<b>Financial risks</b>				
Valuation risks	unlikely	high	M	unchanged
Breaches of covenants	unlikely	high	M	unchanged
Tax risks	unlikely	high	M	unchanged
Interest rate risks	unlikely	high	M	unchanged
Liquidity risks	unlikely	moderate	L	unchanged
Refinancing on unfavorable terms	very unlikely	high	L	unchanged
Counterparty risks	very unlikely	high	L	unchanged

### ***Strategic risks***

Strategic risk management addresses the factors that influence the Company's market environment, regulatory environment, and strategic corporate organization.

### ***Market environment risks***

For the Group, market environment risks are derived from macroeconomic developments and their impact on respective real estate markets. An economic downturn in the German market could result in a decreasing number of employees and in lower demand for rental areas in office properties. For alstria, this would lead to a higher risk of vacant space or to lower rental income. Developments that could have a negative impact on the export-sensitive German domestic market, at least indirectly through the reduction in foreign demand, are slowing growth in developing and emerging countries, the increasing political instability of certain countries in crisis, the continuing low interest rates of the European Central Bank, and the discussion about certain states' high debt. While the developments described are currently no longer in the focus of public debate, the imminent exit of Great Britain from the EU, the trade policy of the US government and the interest rate policy of the US Federal Reserve have been added as uncertainties. Nonetheless, the German market is in a phase of sustained growth, which resulted in a strong economic upswing for the reporting period.\* The first signs of a gradual end to this positive trend emerge from the developments mentioned are also seen by some of the market observers and analysts.\*\* With most market research institutes predicting further, albeit weaker, growth, market environment risks remain at a low (L) risk level.

### ***Risks in relation to changes in the legal environment***

Risks related to the Company's legal environment result from changes to regulations and laws. These may, in turn, have an impact on key regulatory requirements and on the corporate constitution of the alstria companies. These include alstria's classification as a REIT and other regulations concerning publicly listed companies. New laws and regulations may result in new regulatory requirements and thus in higher expenses. Overall, risks regarding the legal environment are, like in the previous year, classified as low (L).

### ***Risk caused by inefficient organizational structures***

Within the scope of the business organization's strategic direction, there are further risks caused by inefficient organizational structures and the Company's dependence on IT systems and structures. Both the organizational structure and the IT infrastructure support strategic and operational objectives. The risk of strategic corporate organization therefore remains low (L).

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\* Deutsche Bundesbank, Monthly Report - June 2018, Vol. 70, No 6, page 13, Frankfurt.

\*\* Deutsche Bundesbank, Monthly Report - Monthly Report - January 2019, Vol. 70, No 1, page 5, Frankfurt; ifo Institut, press release December 13, 2018 'ifo Institute Expects Cooldown in German Economy, But No Recession'.

### ***Operational risks***

alstria's operational risk management deals with property-specific risks and with general business risks. This includes vacancy risk, tenants' creditworthiness, and the risk of falling market rents. Personnel-related risks, such as loss of know-how and competencies due to staff fluctuations, are also monitored in this risk area. alstria applies various early-warning indicators to monitor these risks. Ongoing insurance checks, such as rent projections, vacancy analyses, and the control of lease terms and termination clauses, are designed to help identify potential dangers and risks.

### ***Maintenance risks***

To plan for the requirements of maintenance measures, the Company makes assumptions about a property's condition and the intended standard. Undetected defects, repair requirements resulting from external damage, new legal requirements regarding the condition of the building, and an incorrect assessment of the maintenance requirements could all result in higher-than-planned maintenance costs. Due to alstria's still-high maintenance budgets, the maintenance risk is categorized as medium (M), as it was in the previous year.

### ***Refurbishment project risks***

alstria realizes a significant number of refurbishment projects. All risks related to these projects are managed through extensive project control and through a related budget-management process. Potential risks include those of delayed completion, budget overrun, and deficiencies in construction. The strong economy, especially in the construction industry, led to increasing demands on the procurement and execution of contracts. The risk resulting from refurbishment projects is still categorized as moderate (M).

### ***Vacancy risk***

In the case of lease terminations, leases that are not extended and existing vacancies, there is a risk that the rental area will not be re-let as planned, resulting in lower-than-anticipated revenues.

alstria's budgeting is based on the assumption that rental areas can be re-let within a defined period following the end of a lease. During the reporting period, leases for some large rental areas expired. However, the re-letting activities for these areas achieved a highly positive response. As in the previous year, the overall vacancy risk was medium (M).

### ***Risks relating to property transactions***

alstria is exposed to risks related to the acquisition and disposal of real estate properties. Related risks include the partial or complete failure to detect the risks and liabilities associated with properties during the due diligence process. In case of the disposal of real estate assets, alstria usually gives certain warranties to the potential purchaser regarding factual and legal matters for the property in question. The possibility that alstria's management is not aware of risks that are covered by certain elements and warranties given in a sales agreement cannot be fully ruled out. As a result, there is generally a risk that a prospective purchaser may charge alstria (as the seller) with breach of

warranty. From a purchasing perspective, alstria is exposed to the risks that hidden deficiencies on land and/or property are not observed or that unfavorable contractual agreements are transferred to the Company, resulting in additional future costs.

In both acquisition and selling proceedings, alstria responds to these risks with thorough technical, legal, and tax analyses of all relevant property and contractual issues. It does so by employing internal and external lawyers, tax advisors, architects, construction engineers, and other required experts. As before, risks relating to transactions of properties are assessed to be of a low (L) to medium (M) level.

#### ***HR risks***

The skills and motivations of alstria's employees are decisive factors in the Company's success. The risk of losing knowledge results from the fluctuation of staff and from the inability to recruit sufficiently qualified experts to fill vacancies in good time. Both cases could result in a shortfall of suitable experts and key personnel, which could endanger alstria's competitive advantages in its markets as well as its further growth opportunities. alstria mitigates these risks through the following measures: selective, needs-oriented skill development for existing staff members; strengthening of its image as an attractive employer; university marketing; promotion of employee motivation through strong leadership and corporate culture; and profit-oriented variable remuneration schemes. Overall, alstria estimates the described risks to be at a low level (L), which corresponds to the situation at the end of the previous year.

#### ***IT risks***

The majority of alstria's business processes are supported by efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions in operating activities. alstria protects itself against IT risks through constant examination and enhancement of the information technology that it deploys. In addition, it has installed modern hardware and software solutions and safeguards against attacks. In view of the accumulation of attempted hacker attacks, measures to combat such cyberattacks have intensified. Structural security measures are in place to protect the computer center. All data are backed up daily in an internal data depository and once per week in a separate data depository. Workstations have access restrictions so that employees are only able to access the systems that they need for their work. Therefore, overall IT risks are assessed to be unlikely to materialize; as in the prior year, their possible consequences are considered to be low (L).

#### ***Shortfall of rental payment risks***

An operational risk is a potential shortfall of rental payments from one or more major tenants; it could be realized as a result of an economic downturn or a particular case. Because many of alstria's main tenants are public or highly rated institutions, the risk of a shortfall in payments is currently, as in the previous year, low (L).

### ***Environmental risks***

Considering the long-term nature of the real estate business and the immovable nature of the assets, it is of key importance to take into account the effect of climate change on the prospects. The specific risks related to climate change that the Company faces are the following:

**Physical risks - acute:** Part of our portfolio is subject to extreme weather events that may weaken building structures and threaten tenants' safety. Such phenomena will intensify in the coming years. alstria's control process includes:

- Use of risk assessments from insurance companies to determine which buildings need to be upgraded.
- Insurances covering the portfolio from the loss of rent due to fire, storm, hail or any act of God with a total insured value at least as high as our assets' balance sheet value.

**Transition risks - regulatory:** After the Paris Agreement, new regulations, notably regarding energy efficiency restrictions, will be anticipated. This might impose more stringent obligations on the building sector resulting in the need for more renovations per year. alstria's control process includes:

- Ongoing environmental monitoring and compliance with applicable laws and standards.
- Participation in industry bodies to monitor early on emerging legislation.

**Transition risks - market:** Climate change has shaped tenants' behavior in requiring flexible office space often associated with energy-efficient solutions. Failing to respond to the growing demand for sustainability services can result in a lack of attractiveness of the assets, implying a subsequent decrease in their rental potential. The prevention measures alstria takes are:

- Offering additional services to help tenants run their offices efficiently.
- Recognizing early the financial requirements to upgrade and modernize a building.

Similar to the previous year, environmental risks are at a low (L) level.

### ***Compliance risks***

#### ***Risks resulting from not complying with G-REIT legislation***

alstria is registered in the commercial register as a German REIT-AG (G-REIT). The German REIT segment allows alstria to offer an attractive profile to investors and to distinguish itself in the capital markets as a REIT. The REIT shares are traded on the Frankfurt Stock Exchange. The G-REIT status does not have any influence on the admission to the regulated market (Prime Standard).

Certain requirements have to be met by the Company in order to qualify for and retain its designation as a G-REIT. Following are the most significant requirements: The G-REIT must be a stock corporation listed on an organized market and its registered office and management must be in Germany. Its registered share capital must amount to at least EUR 15 million. All shares must be voting shares of the same class. Free float must be at least 15 %, and no investor may directly hold 10 % or more of the shares or shares that represent 10 % or more of the voting rights. Furthermore, at least 75 % of assets

must consist of real estate and at least 75 % of gross income must be generated from real estate. At least 90 % of annual profits as resulting under German GAAP-accounting must be distributed to shareholders, and the G-REIT's equity may not fall below 45 % of the fair value of its real estate assets as recorded under IFRS.

Due to consistent monitoring of compliance with all described REIT criteria, the risk of non-compliance is considered to be low (L), as in the previous year.

REIT corporations are exempt from German corporate income tax (KSt) and German trade tax (GewSt). This tax exemption has been applied to the Company with retrospective effect starting on January 1, 2007.

Capital and investment management activities maintain the Company's G-REIT status in order to support its business activities.

According to Section 15 of the REIT Act, alstria's equity (as reported in its consolidated financial statements) must not fall short of 45 % of its immovable assets. If the minimum equity ratio is, however, not satisfied for three consecutive financial years, the exemption from corporate income tax (KSt) and trade tax (GewSt) ceases at the end of the third financial year.

The G-REIT equity ratio is 67.2 % as of the balance sheet date. Accordingly, alstria complies with the minimum G-REIT equity ratio requirement according to Section 15 of the G-REIT-Act (REITG). alstria cannot lose its G-REIT status as a result of failing to meet the 45 % threshold within the three-year forecast period through December 31, 2021.

#### ***Risks resulting from fraud or non-compliance***

alstria depends on all employees and management respecting the compliance standards in place. alstria's business expects employees and the members of management to comply with laws, policies, and procedures as prescribed by the documented policies, procedures, and laws. If alstria's senior management fails to document and reinforce the Company's policies and procedures or employees commit criminal, unlawful, or unethical acts (including corruption), this could have an adverse material effect on alstria's business, financial condition, and results of operations. It would also harm alstria's reputation in the real estate market, thereby negatively affecting future business opportunities. The General Data Protection Regulation (Datenschutzgrundverordnung), which came into force in the past financial year, provides significantly higher fines in the event of infringements. The data protection measures already in place at alstria, as well as newly introduced guidelines and processes, are in line with the requirements of the General Data Protection Regulation. alstria has implemented a compliance organization, which deals with adequate and documented compliance rules and regulations and provides training to all employees concerning compliance-related topics. The materialization of compliance risks is assessed to be low (L), which is unchanged from the previous year.

### **Litigation risks**

alstria office REIT-AG or any of its subsidiaries could be involved in pending or foreseeable court or arbitration proceedings that might have a significant impact on the Group's business position at any time. Other risks might arise from legal actions taken to address warranty claims, repayment claims, or any other claims brought forward in connection with divested properties or implemented development projects over the last few years.

#### ***Risks associated with the change of legal form of DO Deutsche Office AG into the limited partnership alstria office Prime Portfolio GmbH & Co. KG in 2016***

Some shareholders of former DO Deutsche Office AG have taken the view that the amount of cash compensation that was offered to those former DO Deutsche Office AG shareholders who declared an objection during the general meeting of DO Deutsche Office AG on July 12, 2016, and declared to exit the limited partnership alstria office Prime Portfolio GmbH & Co. KG, was set too low. For this reason, these shareholders used the opportunity to have the fairness of the cash compensation reviewed in a judicial arbitration proceeding and filed the necessary application for the initiation of such a proceeding. In the event that the court rules in a final decision that the cash compensation has to be improved by the Company, such a decision will, in accordance with Section 13 of the German Arbitration Proceedings Act, be effective for and against all the shareholders of former DO Deutsche Office AG who are entitled to cash compensation, e. g., all shareholders who declared an objection during the Annual General Meeting of DO Deutsche Office AG on July 12, 2016. This means that the additional cash compensation fixed by the court will also be paid to shareholders who have not filed an application in the arbitration proceeding and/or have already declared their exit from the limited partnership. As of the date of the transformation notice published with the commercial register of the local court in Hamburg, the additional cash compensation will have to be made with an annual interest of five percentage points above the base lending rate effective at that time. This right to an additional cash compensation of an unlimited amount with interest might result in a financial burden and hence have an adverse impact on the net assets, financial position, and results from operations of the Group. Prior to the transformation, the Company obtained an expert opinion with the aim of establishing the enterprise value and adequate cash compensation. Subsequently, the adequate cash compensation was subject to a mandatory audit by an independent expert, as prescribed by law. In addition to measures implemented before the litigation to reduce the risk of an additional cash compensation, the Company receives legal support from external advisors in the current proceeding.

The effects of the described lawsuit on the risk of litigation as well as the general risk situation are considered low due to the expected low likelihood of occurrence. Provisions were not made.

Apart from these lawsuits, neither alstria office REIT-AG nor any of its subsidiaries are involved in pending or foreseeable court or arbitration proceedings that might have a significant impact on the Group's business position. This also applies to legal actions addressing warranty claims, repayment claims or any other remuneration brought forward in connection with divested properties or implemented development projects over the last few years. The respective Group companies have

accounted for appropriate provisions to cover any potential financial charges from court or arbitration proceedings. Since none of the Group's companies are currently exposed to any further civil rights proceedings or other kind of legal dispute, nor is this expected to occur, the risk of legal disputes is classified as low (L), as it was in the previous year.

#### ***Financial risks***

Due to alstria's refinancing strategy, its financial risk situation remained stable compared to the previous year's reporting period.

#### ***Valuation risks***

The fair value of the real estate properties owned by the Company reflects the market value as determined by independent appraisers. It can be subject to change in the future. Generally, the market value of real estate properties depends on a variety of factors, some of which are exogenous and may not be under alstria's control. These factors include declining rent levels, decreasing demand, and increasing vacancy rates. Many qualitative factors are also decisive in the valuation of a property, including a property's expected market rents, its condition, and its location. The final assessment of the mandated appraiser is, to a certain extent, discretionary and may differ from the opinion of another appraiser. Should the factors considered or assumptions made in valuing a property change in order to reflect new developments, or for other reasons, subsequent valuations of the respective property may result in a decrease in the market value ascribed to such a property. If such valuations reveal significant decreases in market value compared to prior valuations, the Company can incur significant revaluation losses with respect to such properties.

Factors such as economic changes, interest rate fluctuations, and inflation may adversely affect the value of the properties. To minimize these risks, regional diversification of investment portfolios, consistent focus on the individual needs of tenants, and detailed market research and analysis (broker reports) are applied. In addition, the market value of all of alstria's assets is determined annually at year-end by independent, internationally recognized experts. In summary, the risk of unexpected devaluations is, as in the previous year, classified as medium (M).

#### ***Breaches of Covenants***

In the process of taking out loans and the issuance of a Schultschein, alstria agrees to comply with certain covenants, such as not to exceed a certain level of debt (LTV) or to achieve a minimum income (debt service coverage ratios) from mortgaged properties. In the event of a breach of these covenants, consequences would arise, such as increased credit margins or, in the worst case, an extraordinary termination of a loan by the lender. The Group's current LTV ratios as described above, give significant leeway to the permitted leverage ratios. Hence, the risk of a breach of covenants is at present classified as medium (M), as it was in the previous year.

### **Tax risks**

REITs are completely exempt from corporate income tax and trade tax. As a result, tax risks can only arise in the case of loss of REIT status or at a subsidiary level. Additionally the Group as a whole faces risks from value-added tax, real transfer tax and property tax. Furthermore, it is possible that changes in tax laws or their interpretations can result in a higher tax liability for prior tax periods that have not yet been finally approved. As consequence of the takeover of the alstria office Prime Group, companies are included in the consolidated financial statements that are not subject to the regulations of the REIT legislation. The restructuring, which was implemented during the 2016 financial year, and in particular the conversion of the legal form of these companies into limited partnerships, resulted in the taxation of hidden reserves and hidden liabilities existing within the acquired companies. Subsequently, the companies are tax transparent.

Due to the income tax exemption as a REIT and consistent monitoring of tax relevant issues by internal and external tax experts, the probability of a tax loss is considered to be limited. Since certain tax-related issues, such as real estate transactions or valuations of assets and liabilities as well as a re-entry into a tax liability status could result in high tax obligations over the three-year risk period, the risk impact is considered to be significant.

As a result of the Federal Constitutional Court judgment, the German Federal Government is required to present a new regulation on land tax by the end of 2019. Different concepts are being discussed by the coalition parties. a new concept should, on average, stay at the same level of tax expenses. Nevertheless, a potential increase in land tax caused by a new regulation cannot be closed out for alstria's properties. Basically, changes in property tax affect tenants by way of higher service charge costs. There was a proposal to prohibit the passing on of costs to the tenant. If this proposal really should be realized, it can be assumed that commercial leases based on private-sector autonomy will not be affected. However, the Federal Constitutional Court will allow the application of the current land tax rates until the end of the year 2024. Therefore, higher land tax rates are not expected for the next three years.

This results in an overall tax risk level that is moderate (M), which is unchanged from the previous year's average tax risk.

### **Interest rate risks**

Interest rate risks result from fluctuations in market interest rates. These affect the amount of interest expenses in the financial year and the market value of derivative financial instruments used by the Company.

alstria's hedging policy allows the use of a combination of plain vanilla caps and swaps if applicable in order to limit the Company's exposure to interest rate fluctuations. It still provides enough flexibility to allow for the disposal of real estate assets, avoiding any costs associated with an over-hedged situation. The interest base for the financial liability (loan) is the three-month EURIBOR, which is adjusted every three months. The maturity of the derivative financial instruments is linked to the

term of maturity of the loans. Derivative financial instruments relate to interest caps in order to cap the interest at a set maximum. As of the balance sheet date, the main part of funding consists of long-term fixed-interest loans and bonds and is therefore not subject to interest rate risk up to its maturity. The floating interest rate loans are mainly hedged by interest rate caps. For the possible use of a variable-rate credit line of up to EUR 100,000 k, which is not fully hedged by derivative financial instruments, and the requirement to refinance a bond in 2021, i. e. within the risk observation period, the interest rate risk remains unchanged at the balance sheet date as a medium risk (M).

#### **Liquidity risk**

One of alstria's core processes is cash management. The Company manages its future cash position and monitors its progress on a daily basis. A cash forecasting tool is used to prevent liquidity risks. As a basis for analysis, this liquidity planning tool makes use of the expected cash flows from business activities and the maturity of the financial investments.

Due to the refinancing implemented in recent years, including the placement of a convertible bond and three corporate bonds with diversified maturity profiles, the substantial liquidity risk arising from the repayment of all or most of alstria's credit commitments has been successfully managed. Since the main part of the loans and bonds will not be due until the year 2021, the liquidity risk resulting from repayment obligations is currently, as in the previous year, low (L).

#### **Refinancing risks**

The main financial instruments used by the Group are fixed-interest bonds. In addition, there are mortgage-backed bank loans and derivative financial instruments. The main purpose of the bonds and the bank loans is to finance alstria's business activities. Derivative financial instruments include interest caps. The purpose of these derivative financial instruments is to hedge against interest risks arising from the Company's business activities and its sources of finance. The main risks arising from the Group's financial instruments are cash flow risks, interest rate risks, and liquidity risks. alstria Group's current Net LTV is 30.4%. This is a reasonable ratio compared to the average leverage of German real estate companies. The Group's bank loan LTVs on the balance sheet date are well below the LTVs permitted under the respective loan agreements (see an overview of loan facilities on page 19). The risk of a covenant breach was thus encountered effectively. The creditworthiness of alstria was classified by the rating agency Standard & Poor's as unchanged at BBB ('Investment Grade') at the end of the reporting period. The refinancing of the majority of alstria's bonds and bank loans is not required before the 2021 financial year, when one out of three bonds matures. The two other bonds mature by the 2023 and 2027 financial year, respectively, so that a diversified maturity profile exists and the refinancing of the entire loans in one amount can be avoided (see the maturity profile of the loans on page 20). As a result, the risk of refinancing on unfavorable terms was classified as low (L).

### ***Counterparty risks***

alstria hedges a portion of its risk by applying third-party instruments (interest rate derivatives, property insurance, and others). alstria's counterparties in these contracts are internationally recognized institutions that are rated by the leading rating agencies. alstria reviews the ratings of its counterparties on a regular basis in order to mitigate any risk of default. The financial crisis of 2007 has raised doubts regarding the reliability of rating agencies' assessments. In response to this concern, alstria makes use of other sources of information to verify the rating agencies' assessments.

alstria is otherwise not exposed to any significant credit risks. Hence same as last year, they can be classified as low (L).

### ***Overall risk assessment by the Management Board***

alstria office REIT-AG consolidates and aggregates all risks reported by the different business units and functions adhering to its risk management policy. Compared to the previous year, the overall risk situation of alstria remained stable. In the 2018 financial year, only minor or immaterial changes were noted in alstria's risk level matrix for risks categorized as high (H) or medium (M). At the end of the year, risks categorized as high accounted for 1.0% (December 31, 2017: 1.0%) of all identified risks while risks categorized as medium accounted for 41.2% (December 31, 2017: 39.6%) of all identified risks. On the one hand, this is due to the economic environment in alstria's investment market, which still proves to be economically strong. On the other hand, the Company's stable funding position, conservative level of debt, and solid REIT equity ratio support this assessment. The long-term refinancing position mitigates the risk of higher borrowing costs in the event of rising interest rates, the low LTV reduces the risk that could arise if the property valuations should come under pressure, e. g. as a result of interest rate hikes.

Sufficient precautionary measures have been undertaken to counteract identifiable risks.

In addition to assessing the potential impact of the realization of risks on the value of the Group's net assets, the potential liquidity requirements for selected key risks are identified to cover a period of three years. The assessed amount of liquidity amounted to EUR 27.4 million as of the balance sheet date.

In our view, the risks described in our aggregated risk report do not threaten our ability to continue as a going concern either individually or cumulatively, given their likelihood of occurrence and potential level of impact.

## REPORT ON OPPORTUNITIES

### **Management of opportunities**

alstria's opportunities management aims to identify and assess opportunities as early as possible and to initiate appropriate measures in order to take advantage of those opportunities and transform them into business success.

Growth and earnings opportunities result both from alstria's existing real estate portfolio and from its acquisition of properties. Depending on the property's position in the life cycle, opportunities may be found in repositioning and development, in strengthening tenant relationships, or in selling the property.

The Company's financing activities safeguard the necessary funding to implement these activities. Here, opportunities are based on ensuring sustainable financing, including equity funding, on favorable terms.

The evaluation of opportunities is carried out in the context of annual budget planning and on an ongoing, occasional basis during the year. The process starts with a careful analysis of the market environment and of the market opportunities related to the properties held in the portfolio. These include the assessment of criteria such as tenant needs, property categories, and regulatory changes. Regular reporting addressing the Management supports the monitoring of growth initiatives within the budget and planning-approval processes.

The alstria Management Board is regularly updated on the status and progress of the initiatives being implemented. In addition, the real estate operations department receives monthly reports in which the planned costs and revenues are compared to the actual budget consumption and revenues. In addition, financial and liquidity planning and forecasts are updated, and changes to the project scope are clarified.

### ***Opportunities related to real estate acquisitions***

The location of a property is essential for its attractiveness. Opportunities arise when a regional market is characterized by favorable demographics and real estate dynamics. Together with optimal property management, this results in opportunities for long-term capital appreciation. alstria's acquisition strategy is aimed at identifying properties with the described opportunity structure. Its investment strategy therefore focuses on acquiring properties and portfolios with higher vacancy rates that are thus open to additional growth opportunities through the stabilization of these properties' leases. Acquisitions will only be performed if the investment volume offers the prospect of achieving a sustainable increase in value. In particular, the low LTV debt ratio offers opportunities in the form of greater flexibility for acquiring real estate.

### ***Opportunities related to tenant relationships***

Structured and active property and asset management both ensures the quality of our leasing service and is the basis for sustainable tenant relationships. Opportunities arise through a flexible response to existing or potential tenants' needs. The Company has the knowledge and resources to provide solutions and to implement tenants' requirements. This gives rise to opportunities to generate sustainable, long-term leases.

### ***Opportunities arising from real estate development***

As a long-term-oriented owner of real estate, alstria's property portfolio also entails aging buildings that require refurbishment or repositioning. The modernization of a property opens up the opportunity for value creation by reshaping the asset for the next 20 to 30 years and strengthening its future attractiveness in the market and for tenants.

### ***Opportunities arising from financing***

alstria's financing strategy is focused on the optimal provision of funds to invest in new properties and development projects. Opportunities arise from the optimization of these financing terms. This requires implementing long-term and flexible funding at favorable conditions and safeguarding financial covenants at all times. A significant opportunity also arises out of a low debt ratio (the Net LTV of bank loans is currently 30.4%; see the overview of loan facilities on page 19), representing a comfortable base for future funding and growth. Funding options include mortgage loans, corporate bonds, and equity funding. Opportunities arise from the diversification of funding sources and with regard to the rating obtained.

### **Overall summary of the Opportunities Report**

alstria's current financial situation involves a stable financial position at favorable interest rates until 2021. The rating allows for greater flexibility in terms of new funding sources. Concerning revenues, alstria benefits from long-term rental agreements with an average lease length of approximately 4.8 years and potential increases in rents due to decreasing vacancy rates. In addition, the Company possesses a range of properties that offer attractive and value-adding refurbishment opportunities. alstria's portfolio is well-balanced and contains many first-class anchor buildings with high-quality tenants. The low LTV debt ratio offers the chance of greater flexibility for acquiring real estate in the event that spontaneous opportunities arise.

Therefore, alstria is well-positioned to continue its buy-and-manage strategy and to successfully identify and implement relevant future market opportunities.

alstria's core competence is asset management. The asset repositioning and refurbishment that alstria is continuously undertaking will strengthen the basis for increased organic value across the portfolio.

## SUSTAINABILITY REPORT

In November 2018, alstria published its ninth sustainability report. The report is based on the GRI Standards and has received third-party assurance for all disclosed environmental and social indicators. It provides information about alstria's next steps toward a carbon-neutral economy.

The concept of sustainability goes beyond the reporting exercise itself. Its sustainability approach is embedded in every decision across all levels of the organization. To alstria, pursuing a path of continuous improvement and innovation is what sustainability is all about.

2017 has been a successful year for alstria, as the Company managed to emit nearly 20 times less carbon emissions compared to 2013, and 13% less than the previous year. Furthermore, alstria managed to procure 98% renewable energy for the electricity that it controls across the portfolio, being close to meeting its RE100 target. Its comprehensive low-carbon portfolio strategy has received a prize in 2018 from the German Property Federation (ZIA) and has been further recognized as a sector leader by Carbon Disclosure Project (CDP).

## DISCLOSURES REQUIRED BY TAKEOVER LAW

**Disclosures and the explanatory report pursuant to Section 315a para. 1 of the German Commercial Code (*Handelsgesetzbuch, HGB*)**

### **Composition of subscribed capital**

On the balance sheet date as of December 31, 2018, the share capital of alstria amounted to EUR 177,416,497.00, divided into 177,416,497 no-par value bearer shares. All shares are fully paid in and have equal rights and obligations. Each share entitles the bearer to one vote at the Annual General Meeting and is decisive for the shareholder's share in the profits of the Company. The individual rights and duties of the shareholders result from the provisions of the German Stock Corporation Act (*Aktiengesetz, AktG*), in particular Sections 12, 53a *et seq.*, 118 *et seq.* and 186.

### **Restrictions on voting rights or the transfer of shares**

The exercise of voting rights and the transfer of shares are based on the statutory requirements and alstria's Articles of Association; the latter do not restrict either of these activities. According to Sections 71b and 136 AktG, for example, the voting rights of the affected shares are excluded by law. Other restrictions as to voting rights or the transfer of shares do not exist, or, as far as they arise from agreements between shareholders, are not known to the Management Board.

### **Shareholdings exceeding 10% of the voting rights**

On the balance sheet date as of December 31, 2018, alstria was not aware of any shareholders directly holding more than 10% of the voting rights. The Government of Singapore notified us in April 2016 that via controlled undertakings, it held approximately 12.6% of alstria's shares. In addition, please refer to the disclosures in the Notes under no. 17.3 Voting Right Notifications.

### **Shares with special rights**

There are no shares with special rights of control.

### **System of Control for any Employee Share Scheme in which employees do not directly exercise the Control Rights**

The employees who hold alstria shares exercise their rights of control as any other shareholders do, in accordance with the applicable law and the Articles of Association.

### **Appointment and dismissal of Management Board and amendments to the articles of association**

alstria's Management Board consists of one or more members who may be appointed or dismissed in accordance with Sections 84 and 85 AktG. The Articles of Association do not contain any special provisions in this respect. Pursuant to Section 84 AktG, members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Reappointment or extension of the term of office is permitted, for a maximum of five years in each case.

Amendments to the Articles of Association are made pursuant to Sections 179 and 133 AktG. Pursuant to Section 12 para. 2 of the Articles of Association, the Supervisory Board is furthermore authorized

to make changes and amendments to the Articles of Association that merely affect the wording without passing a shareholder resolution in the General Meeting. In addition, the Supervisory Board has, by resolution of the Annual General Meetings on May 16, 2017 and April 26, 2018, been authorized to adapt the wording of the Articles of Association to the utilization of the Conditional Capital III 2017 and the Authorized Capital 2018 and after expiration of the applicable authorization periods.

Pursuant to Section 15 para. 5 of the Articles of Association in conjunction with Sections 179 para. 2 and 133 of the AktG, shareholders may make resolutions regarding such amendments at a general meeting with a simple majority of the votes cast and a simple majority of the share capital represented. Insofar as a larger majority is prescribed by law, such majority shall be decisive.

The Articles of Association were last amended in the reporting year by a resolution passed by the Supervisory Board on June 8, 2018: Section 5 para. 1, 2 and 6 of the Articles of Association were formally adapted to capital increases executed from the Company's Conditional Capital 2013 and Conditional Capital III 2015. Section 5 para. 5 of the Articles of Association has been deleted as the Conditional Capital 2013 became obsolete.

#### **Authority of Management Board regarding the issue and buyback of shares**

##### **1. Authorized Capital**

The Articles of Association authorize the Management Board, with the approval of the Supervisory Board, to increase the share capital on or before April 25, 2023, by issuing new no-par value bearer shares against contributions in cash and/or in kind once or repeatedly up to a total amount of EUR 33,950,413.00. Further details are governed by Section 5 para. 3, 4 and 4a of the Articles of Association.

##### **2. Conditional Capital**

alstria holds two conditional capitals (pursuant to Sections 192 et seq. of the AktG), which are regulated in Sections 5 para. 6 and 7 of the Company's Articles of Association.

###### **a) Conditional capital III 2015**

The share capital is conditionally increased by an amount of up to EUR 356,250.00 by issuing up to 356,250 no-par value bearer shares. The conditional capital increase shall be used exclusively to grant shares to the holders of convertible profit participation certificates issued by the Company through May 5, 2020, in accordance with the authorization of the General Meeting held on May 6, 2015. The conditional capital increase is only carried out to the extent that issued convertible profit participation certificates are converted into shares of the Company and no treasury shares are used to satisfy the certificates. The new shares shall participate in the Company's profits from the beginning of the financial year in which they come into existence as a result of the conversion of certificates.

**b) Conditional capital III 2017**

Furthermore, the share capital is conditionally increased by an amount of up to EUR 1,000,000.00 by issuing up to 1,000,000 no-par-value bearer shares. The conditional capital increase shall be used exclusively to grant shares to the holders of convertible profit participation certificates issued by the Company through May 15, 2022, in accordance with the authorization of the General Meeting held on May 16, 2017. The conditional capital increase is only carried out to the extent that issued convertible profit participation certificates are converted into shares of the Company and no treasury shares are used to satisfy the certificates. The new shares shall participate in the Company's profits from the beginning of the financial year in which they come into existence as a result of the conversion of certificates.

**3. Purchase of treasury shares**

In the General Meeting held on May 16, 2017, the shareholders authorized the Management Board to acquire shares of up to a total of 10% of the Company's share capital in place at the time of the authorization's issuance until May 15, 2022. The acquired shares and other treasury shares in the possession of, or to be attributed to, alstria (pursuant to Sections 71a *et seq.* of the AktG) may at no point in time amount to more than 10% of the share capital. Shares may be purchased through a stock exchange, by means of a public offer to all shareholders, or by making use of financial derivatives (put or call options, or a combination of both).

**Significant agreements of alstria office REIT-AG that take effect upon a change of control following a takeover bid**

Some of alstria office REIT-AG's financing agreements contain the clauses common to such contracts regarding a change of control. In particular, the agreements entitle the lenders to request repayment of the loans or an obligation by alstria to repay the loans in the event that any person, company, or a group of persons should acquire, directly or indirectly, 50% of the voting rights or a controlling influence in alstria. However, for some financing agreements, the repayment obligation is subject to a downgrade of the Company's rating, occurring within 120 days of the change of control.

The terms and conditions of the fixed-interest bonds issued by the Company in the 2015, 2016 and 2017 financial year entitle each bond holder to request the Company to redeem or purchase its bond for 101% of the principal amount of such bond plus unpaid interest accrued, if any person, company, or group of persons should acquire (directly or indirectly) more than 50% of the voting rights in alstria and within 120 days after such change of control the rating for the Company or the bond is downgraded.

The total volume of obligations under those agreements with corresponding change of control clauses amounted to approximately EUR 1,177 million on the balance sheet date.

## **Compensation agreements with Management Board members and employees in case of a takeover bid**

No compensation agreements with Management Board members or employees are in place that will take effect in case of a takeover bid.

These provisions comply with statutory requirements or are reasonable and common practice at comparable, publicly listed companies. They are not intended to hinder potential takeover bids.

## **ADDITIONAL GROUP DISCLOSURE**

### **EMPLOYEES**

As of December 31, 2018, alstria had 149 employees (compared to 121 on December 31, 2017). The annual average number of employees was 139 (compared to 118 in the previous year). These figures exclude Management Board members.

### **REMUNERATION REPORT**

Management Board members' compensation comprises a fixed and a variable component that are linked to the Company's operating performance. In addition to the bonus, members of the Management Board receive share-based remuneration as a long-term incentive.

Members of the Supervisory Board receive fixed remuneration.

The remuneration report (see pages 157 to 164), which contains details of the principles for the remuneration of the Management Board and Supervisory Board, forms an integral part of the audited Group management report.

### **CORPORATE GOVERNANCE GROUP DECLARATION PURSUANT TO SECTION 315D HGB ("HANDELS-GESETZBUCH": GERMAN COMMERCIAL CODE)**

The complete corporate governance declaration is published on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)). Thus, it is made permanently accessible to the public.

### **DIVIDEND**

At the Annual General Meeting, the Managing Board intends, in agreement with the Supervisory Board, to submit the following proposal to allocate the unappropriated net income of alstria office REIT-AG for the 2018 financial year:

To distribute a dividend of EUR 0.52 for each share of no par value entitled to the dividend for the 2018 financial year and that exist at the date of the Annual Shareholders' Meeting, with the remaining amount to be carried forward. Payment of the proposed dividend is contingent upon approval by alstria shareholders at the Annual General Meeting on May 22, 2019. The proposed dividend of EUR 0.52 per share for the 2018 financial year represents a total payment of EUR 92.3 million based on the number of shares entitled to the dividend at the balance sheet date.

## EXPECTED DEVELOPMENTS

The report on expected developments contains statements related to anticipated future developments. The Company's development depends on various factors, some of which are beyond alstria's control. Statements about expected developments are based on current assessments and are hence, by their very nature, exposed to risks and uncertainty.

The actual development of the alstria Group may differ positively or negatively from the predicted development presented in the statements of this report.

## EXPECTED ECONOMIC DEVELOPMENT

The German economy remains on a growth path. GDP growth was at 1.5% in 2018 compared to the previous year. The employment rate also increased by 1.3% to 44.8 million. Economic growth will also continue in 2019, albeit at a low level. The German government expects a GDP growth of 1.0% compared to the previous year and a positive development in the German labor market of approximately 45.2 million for 2019. German economic associations also estimate a positive economic development for 2019, as well as a rise in investments in public construction of 3.0%. The construction industry remains the growth driver.\*

## DEVELOPMENT OF THE REAL ESTATE MARKET: OUTLOOK FOR 2018

In connection with low interest rates and a lack of investment alternatives, the importance of real estate as an investment class will still be high. Demand for real estate in core areas is estimated to remain high in 2019. Due to the limited investment offerings, the tendency to invest in value-added assets will continue.

## OUTLOOK FOR THE ALSTRIA GROUP

Based on the expected stability of the German economy and of the real estate market, the Company does not expect significant changes in alstria's direct environment. However, unexpected changes in terms of interest rates, further property acquisitions, property disposals, or other changes in the assumptions for the 2019 financial year could have an impact on the projections.

Mainly due to the transfer of benefit and burden of the assets sold in 2018, alstria expects revenues to decrease in 2019 by approximately EUR 3 million to EUR 190 million, compared to revenues in 2018.

For the 2019 financial year, the Company expects FFO of around EUR 112 million. The year-on-year decrease in FFO compared to the 2018 achieved FFO of EUR 115 million is mainly due to lower revenues.

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\* Please refer to Annual Economic Report 2018 from the Federal Ministry of Economics and Energy as well as ifo, IfW, IMK, RWI und IWH.

## Group Management Report

Since the Company pays out a significant part of its funds from operations as dividends, future external growth largely depends on the Company's ability to raise additional equity. Consequently, further portfolio growth is highly dependent on the development of the global equity markets and is therefore difficult to predict over a longer period of time.

Hamburg, February 21, 2019

## Group Management Report

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# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

For the period from January 1 to December 31, 2018

EUR k	Notes	2018	2017
Revenues	5.1	193,193	193,680
Revenues from service charge income	5.1	39,160	37,387
Real estate operating expenses	5.2	-63,285	-58,156
<b>Net rental income</b>		<b>169,068</b>	<b>172,911</b>
Administrative expenses	5.3	-8,834	-8,033
Personnel expenses	5.4	-15,910	-13,823
Other operating income	5.5	10,656	10,139
Other operating expenses	5.6	-13,746	-14,371
Net result from fair value adjustments to investment property	6.1	398,954	181,492
Net result from the disposal of investment property	5.7	14,887	19,693
<b>Net operating result</b>		<b>555,075</b>	<b>348,008</b>
Net financial result	5.8	-29,497	-67,708
Share of the result of companies accounted for at equity	2.2.3	-70	28,118
Net loss from fair value adjustments to financial derivatives	5.8; 6.5	2,452	-9,334
<b>Pretax result</b>		<b>527,960</b>	<b>299,084</b>
Income tax expenses	5.9	-546	-2,097
<b>Consolidated profit</b>		<b>527,414</b>	<b>296,987</b>
Attributable to:			
Shareholders of alstria office REIT-AG		527,414	296,987
<b>Earnings per share in EUR</b>			
Basic earnings per share	10	3.02	1.94
Diluted earnings per share	10	3.00	1.85

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the period from January 1 to December 31, 2018

EUR k	Notes	2018	2017
<b>Consolidated profit for the period</b>		<b>527,414</b>	<b>296,987</b>
Items that will not be classified to the income statement in a future period:			
Additions in the revaluation surplus according to IFRS 16	6.3;7.1	3,485	0
<b>Other comprehensive income for the period</b>		<b>3,485</b>	<b>0</b>
<b>Total comprehensive income for the period</b>		<b>530,899</b>	<b>296,987</b>
 <b>Total comprehensive income attributable to</b>			
Shareholders of alstria office REIT-AG		530,899	296,987

Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**As of December 31, 2018**

**ASSETS**

EUR k	Notes	Dec. 31, 2018	Dec. 31, 2017
<b>Noncurrent assets</b>			
Investment property	6.1	3,938,864	3,331,858
Equity-accounted investments	6.2	8,589	8,659
Property, plant and equipment	6.3	18,972	22,442
Intangible assets	6.3	349	313
Financial assets	6.4	36,737	36,567
Derivatives	6.5	0	14
<b>Total noncurrent assets</b>		<b>4,003,511</b>	<b>3,399,853</b>
 <b>Current assets</b>			
Trade receivables	6.6	6,865	7,153
Income tax receivables		43	25
Other receivables	6.6	8,314	14,760
Cash and cash equivalents	6.7	132,899	102,078
<i>thereof restricted</i>		0	0
Assets held for sale	6.8	29,620	60,200
<b>Total current assets</b>		<b>177,741</b>	<b>184,216</b>
 <b>Total assets</b>		<b>4,181,252</b>	<b>3,584,069</b>

Consolidated Financial Statements

<b>EQUITY AND LIABILITIES</b>			
<b>EUR k</b>	<b>Notes</b>	<b>Dec. 31, 2018</b>	<b>Dec. 31, 2017</b>
<b>Equity</b>	7.1		
Share capital		177,416	153,962
Capital surplus		1,538,632	1,363,316
Retained earnings		964,554	437,382
Revaluation surplus		3,485	0
<b>Total equity</b>		<b>2,684,087</b>	<b>1,954,660</b>
<hr/>			
<b>Noncurrent liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	64,013	53,834
Long-term loans and bonds, net of current portion	7.3	1,336,090	1,381,965
Other provisions	7.4	1,275	1,499
Other liabilities	7.5	5,010	4,408
<b>Total noncurrent liabilities</b>		<b>1,406,388</b>	<b>1,441,706</b>
<hr/>			
<b>Current liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	47	47
Short-term loans	7.3	14,171	86,450
Trade payables	7.5	4,400	7,268
Profit participation rights	5.4; 13.2	530	538
Derivatives	6.5	0	27,529
Income tax liabilities	7.6	5,945	13,675
Other provisions	7.4	5,477	2,992
Other current liabilities	7.5	60,207	49,204
<b>Total current liabilities</b>		<b>90,777</b>	<b>187,703</b>
<b>Total liabilities</b>		<b>1,497,165</b>	<b>1,629,409</b>
<hr/>			
<b>Total equity and liabilities</b>		<b>4,181,252</b>	<b>3,584,069</b>

Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the year ending December 31, 2018**

EUR k	Notes	2018	2017
<b>1. Cash flows from operating activities</b>			
Consolidated profit or loss for the period		527,414	296,987
Interest income	5.8	-745	-816
Interest expense	5.8	29,821	35,984
Other financial expenses	5.8	420	32,540
Result from income taxes	5.9	546	2,097
Unrealized valuation movements		-389,465	-190,962
Other noncash income (-)/expenses (+)	8.3	5,616	5,174
Gain (-)/loss (+) on disposal of investment properties	5.7	-14,887	-19,693
Depreciation and impairment of fixed assets (+)	6.3	794	490
Increase (-)/decrease (+) in trade receivables and other assets not attributed to investing or financing activities		-1,055	-765
Increase (+)/decrease (-) in trade payables and other liabilities not attributed to investing or financing activities		-369	5,240
<b>Cash generated from operations</b>		<b>158,090</b>	<b>166,276</b>
Interest received		745	817
Interest paid		-26,658	-36,299
Income taxes paid		-13,163	-8,526
<b>Net cash generated from operating activities</b>		<b>119,014</b>	<b>122,268</b>
<b>2. Cash flows from investing activities</b>			
Acquisition of investment properties		-253,119	-251,505
Proceeds from the sale of investment properties		119,200	87,975
Payment of transaction cost in relation to the sale of investment properties		-139	-1,160
Acquisition of other property, plant and equipment		-2,145	-627
Proceeds from the equity release of interests in joint ventures		0	49,850
Payments for investment in financial assets		0	-1,764
<b>Net cash used in investing activities</b>		<b>-136,203</b>	<b>-117,231</b>

Consolidated Financial Statements

EUR k	Notes	2018	2017
<b>3. Cash flows from financing activities</b>			
Cash received from cash equity contributions	7.1	193,072	0
Payment of transaction costs of issue of shares		-2,611	0
Payments for the acquisition of minority interests	7.1	-101	-26,919
Distributions on limited partnerships of minority shareholders		-1,941	0
Proceeds from borrowing	7.3	60,000	30,000
Proceeds from the issuing of corporate bonds	7.3	0	350,000
Payments of transaction costs for taking out loans		-151	-4,861
Payments of dividends	11	-92,170	-79,680
Payments due to the redemption of bonds and borrowings		-108,088	-389,876
Payment of loan premium for redemption of corporate bonds	5.8	0	-29,172
Payments for the termination/change of financial derivatives		0	60
<b>Net cash generated from/ used in financing activities</b>		<b>48,010</b>	<b>-150,448</b>
 <b>4. Cash and cash equivalents at the end of the period</b>			
Change in cash and cash equivalents (subtotal of 1 to 3)		30,821	-145,411
Cash and cash equivalents at the beginning of the period		102,078	247,489
<b>Cash and cash equivalents at the end of the period</b>			
<i>thereof restricted: EUR 0 k; previous year: EUR 0 k</i>	6.7	<b>132,899</b>	<b>102,078</b>

Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the period from January 1 to December 31, 2018**

EUR k	Notes	Share capital	Capital surplus	Retained earnings	Revaluation surplus	Total equity
<b>As of Dec. 31, 2017</b>		<b>153,962</b>	<b>1,363,316</b>	<b>437,382</b>	<b>0</b>	<b>1,954,660</b>
First-time adoption from IFRS 9	2.1	0	0	-242	0	-242
<b>As of Jan. 1, 2018</b>		<b>153,962</b>	<b>1,363,316</b>	<b>437,140</b>	<b>0</b>	<b>1,954,418</b>
<hr/>						
<b>Changes in the financial year 2018</b>						
Consolidated profit		0	0	527,414	0	<b>527,414</b>
Other comprehensive income		0	0	0	3,485	<b>3,485</b>
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>527,414</b>	<b>3,485</b>	<b>530,899</b>
Payments of dividends	11	0	-92,170	0	0	<b>-92,170</b>
Proceeds from shares issued against contribution in cash	7.1	15,323	175,138	0	0	<b>190,461</b>
Share-based remuneration	5.4; 13.2	0	1,629	0	0	<b>1,629</b>
Conversion of convertible participation rights	13.2	144	144	0	0	<b>288</b>
Conversion of convertible bond	7.2	7,987	90,575	0	0	<b>98,562</b>
<b>As of Dec. 31, 2018</b>	<b>7.1</b>	<b>177,416</b>	<b>1,538,632</b>	<b>964,554</b>	<b>3,485</b>	<b>2,684,087</b>

Consolidated Financial Statements

**For the period from January 1 to December 31, 2017**

EUR k	Notes	Share capital	Capital surplus	Retained earnings	Total equity
<b>As of Jan. 1, 2017</b>		<b>153,231</b>	<b>1,434,812</b>	<b>140,395</b>	<b>1,728,438</b>
<b>Changes in the financial year 2017</b>					
Consolidated profit		0	0	296,987	296,987
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>296,987</b>	<b>296,987</b>
Payments of dividends	11	0	-79,680	0	<b>-79,680</b>
Share-based remuneration	5.4; 13.2	0	1,129	0	<b>1,129</b>
Conversion of convertible participation rights	13.2	111	111	0	<b>222</b>
Conversion of convertible bond	7.2	620	6,944	0	<b>7,564</b>
<b>As of Dec. 31, 2017</b>	<b>7.1</b>	<b>153,962</b>	<b>1,363,316</b>	<b>437,382</b>	<b>1,954,660</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

alstria office REIT-AG (the Company) is a listed real estate property corporation under the scope of the G-REIT Act. The main objectives of the Company and its subsidiaries (the Group or alstria) are the acquisition, management, operation, and sale of owned real estate property and the holding of participations in enterprises that acquire, manage, operate, and sell owned property.

alstria prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and with the additional requirements set forth in Section 315e para. 1 of the German Commercial Code (HGB). The consolidated financial statements were authorized for issue by the Management Board on February 21, 2019.

alstria office REIT-AG's registered office and address is Steinstrasse 7, 20095 Hamburg, Germany. The Company is entered in the commercial register at the local court of Hamburg under HRB No. 99204.

alstria prepares and reports its consolidated financial statements in Euro (EUR). Due to rounding, the numbers presented may not add up precisely to the totals provided.

The financial year ends on December 31 of each calendar year. The consolidated financial statements presented in this report were prepared for the period from January 1 to December 31, 2018.

### 2. BASIS OF PREPARATION

Apart from investment property (land and buildings) and certain financial instruments that are measured at fair values at the end of each reporting period and as explained in the accounting policies below, the consolidated financial statements have been prepared based on historical cost.

The preparation of financial statements in conformity with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity or items wherein assumptions and estimates have a significant impact on the consolidated financial statements are disclosed in Note 2.3.

Single items are summarized in the consolidated statement of financial position and the income statement. They are commented on in the Notes to the financial statements.

Assets and liabilities are classified as noncurrent and current, respectively. Current items are defined as items that are due in less than one year and vice versa.

## 2.1 Changes in accounting policies and mandatory disclosures

### Effects resulting from new and amended IFRSs

The Company adopted the following new standards and amendments to standards for the first time for the financial year beginning January 1, 2018:

EU Endorsement	Standard/interpretation	Content	Applicable for FY beginning on/after	Effects
Nov. 22, 2016	IFRS 9	New standard 'Financial instruments: classification and measurement'	Jan. 1, 2018	No material effects
Sept. 22, 2016	IFRS 15	New standard 'Revenue from contracts with customers'	Jan. 1, 2018	Presentation
Feb. 26, 2018	Amendments to IFRS 2	Classification and measurement of share-based payment transactions	Jan. 1, 2018	None
Nov. 3, 2017	Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	Jan. 1, 2018	None
Mar. 14, 2018	Amendments to IAS 40	Transfers of investment property	Jan. 1, 2018	Currently None
Feb. 7, 2018	Annual Improvements to IFRSs	Improvements to IFRSs 2014–2016	Jan. 1, 2017/ Jan. 1, 2018	None
Mar. 28, 2018	IFRIC 22	Foreign currency transactions and advance consideration	Jan. 1, 2018	None
Oct. 31, 2017	IFRS 15	Clarifications issued for IFRS 15, 'Revenue from Contracts with Customers'	Jan. 1, 2018	None

### IFRS 9 Financial instruments

The new standard IFRS 9 'Financial Instruments' contains rules for recognition, measurement, derecognition, and hedge accounting. The Standard replaces the accounting for financial instruments previously carried out under IAS 39 'Financial Instruments.' The central requirements of the final IFRS 9 can be summarized as follows:

- Compared with the previous standard, IAS 39 'Financial Instruments: Recognition and Measurement,' the requirements of IFRS 9 with regard to the application and the entry and derecognition are largely unchanged.
- However, the regulations of IFRS 9 provide for a new classification model for financial assets compared to IAS 39.
- The subsequent measurement of financial assets will in the future be based on three categories with different valuation standards and a different recognition of changes in value. The categorization results in both dependence on the contractual cash flows of the instrument and the business model in which the instrument is held. Depending on the nature of these conditions, they are measured at amortized cost using the effective interest method (AC category), at fair value, with changes recognized in other comprehensive income (FVTOCI category), or at fair value, where changes are recognized through profit or loss (FVTPL category). Basically, these are mandatory categories. In addition, however, individual options are available to companies.
- For financial liabilities, however, the existing rules were largely adopted in IFRS 9. The only

major change concerns financial liabilities in the fair value option. For them, fair value fluctuations due to changes in their own credit risk are to be recognized in other comprehensive income.

- The new impairment model in IFRS 9 provides for three levels that will determine the amount of losses to be recognized and interest received in the future. Thereafter, expected losses in the amount of the present value of an expected 12-month loss are recognized on acquisition (Level 1). If there is a significant increase in the risk of default, the risk provision must be increased up to the amount of the expected losses of the entire residual maturity (Level 2). If there is an objective indication of impairment, the interest must be collected on the basis of the net book value (book value less risk provisions) (level 3). alstria applies the simplified approach for the valuation of trade receivables in accordance with IFRS 9.5.5.15.
- The revised hedge accounting rules continue to include the three types of hedge accounting that are also available in IAS 39. However, the requirements of IFRS 9 provide more opportunities for the application of hedge accounting and allow the reporting entity to better reflect its risk management activities in the financial statements. The main changes concern the extended scope of underlying transactions and hedges as well as new rules on the effectiveness of hedging relationships, particularly the elimination of the previous 80-125% corridor.
- In addition to extensive transitional provisions, IFRS 9 is also associated with extensive disclosure requirements for both transition and ongoing application. Changes compared to IFRS 7 ‘Financial Instruments: Notes’ mainly result from the provisions on impairment.

The first-time application of IFRS 9 has the following effects on the consolidated financial statements:

#### *Classification and valuation*

Except for the changes resulting from the application of the new impairment model in IFRS 9, alstria's current financial assets and liabilities continue to be accounted for, as it was the case under IAS 39. The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

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EUR k	Original classifica- tion under IAS 39	New classifica- tion under IFRS 9	Original carry- ing amount un- der IAS 39	New carrying amount under IFRS 9
<b>Financial assets</b>				
Bank deposits	Loans and receiva- bles	Amortized cost	36,567	36,494
Interest rate derivatives	Fair value - hedging instrument	Fair value - hedging instrument	14	14
Trade and other receivables	Loans and receiva- bles	Amortized cost	11,635	11,466
Cash and cash equivalents	Loans and receiva- bles	Amortized cost	102,078	102,078
<b>Total financial assets</b>			<b>150,294</b>	<b>150,052</b>
<b>Financial liabilities</b>				
Ltd. equity of noncontrolling interests	Other financial liabil- ities	Other financial liabil- ties	53,881	53,881
Bonds and loans	Other financial liabil- ties	Other financial liabil- ties	1,468,415	1,468,415
Trade payables	Other financial liabil- ties	Other financial liabil- ties	7,268	7,268
Embedded derivative	Fair value - hedging instrument	Fair value - hedging instrument	27,529	27,529
Other liabilities	Other financial liabil- ties	Other financial liabil- ties	50,299	50,299
<b>Total financial liabilities</b>			<b>1,607,392</b>	<b>1,607,392</b>

### ***Impairment***

With trade receivables and noncurrent financial assets, the Group only has assets that continue to be measured at amortized cost. The first-time inclusion of expected losses instead of losses incurred resulted in an additional write-down of trade receivables in the amount of EUR 169 k. The fair value adjustment was taken into account as a first-time effect from IFRS 9 in retained earnings not affecting the income statement. The same applied to the adjustment in the amount of EUR 73 k to be made to Bank deposits.

### ***Hedge accounting***

As the new hedge accounting rules better reflect the Group's risk management and as the range of possible hedged items and hedges has widened, the existing hedges continue to be recognized as a hedge under IFRS 9.

### ***Transition method***

In accordance with the transition guidelines provided by IFRS 9, the adjustment of prior-year figures was waived.

For an explanation of the classification and measurement of financial instruments and the presentation of profits and losses in accordance with IFRS 9, please refer to Notes 2.4.

### **IFRS 15 Revenue from contracts with customer**

In May 2014, the International Accounting Standards Board (IASB) published IFRS 15 'Revenue from Contracts with Customers.' IFRS 15 replaces the previous IFRS regulations on revenue recognition:

e. g. IAS 18 and IAS 11. The goal of the new standard on revenue recognition is to present the multitude of regulations previously contained in various standards and interpretations in a uniform revenue recognition model. The standard provides a five-step model to determine the amount of revenue and the time of realization.

According to this five-step model, the contract with the customer must first be determined (step 1). In step 2, the independent performance obligations are to be identified in the contract. Subsequently (step 3), the transaction price is to be determined, with explicit provisions for the treatment of variable consideration, financing components, payments to the customer, and barter transactions. After determining the transaction price, in step 4 the distribution of the transaction price to the individual performance obligations has to be carried out. This is based on the individual selling prices of the individual performance obligations. Finally (step 5), the proceeds can be recognized if the performance obligation has been met by the Company. The prerequisite for this is the transfer of power of the disposal of goods or services to the customer.

When concluding a contract, it is to be determined under IFRS 15 whether the revenues resulting from the contract are to be recognized at a specific time or over a period of time. It is first necessary to clarify on the basis of certain criteria whether the power of disposal over the performance obligation is transferred over a period of time. If this is not the case, the proceeds must be recognized at the time at which the power of disposal is transferred to the customer.

Finally, the standard contains new, more extensive rules on disclosures about the proceeds of an IFRS preparer's financial statements. In particular, qualitative and quantitative information should be provided on each of the following topics:

- its contracts with customers;
- significant discretionary decisions and their changes made in applying the revenue provisions to these contracts; and
- any assets resulting from capitalized costs for obtaining and fulfilling a contract with a customer.

In April 2016, the IASB published clarifications on IFRS 15 covering the following topics:

- identification of performance obligations (regarding autonomous identifiability in the context of the contract);
- principal-agent relationships (regarding assessment of the control of goods or services prior to transmission to the customer);
- licenses (regarding determination of the type of license granted as well as license and usage-based license fees); and
- transitional provisions (regarding practical facilitation of the first-time application of the standard).

The Group mainly generates revenues from the long-term leasing of real estate space. The accounting of these revenues is based on IAS 17 or, in the future, on IFRS 16 and is not subject to the requirements

of IFRS 15. In addition, revenues are generated from the Group's own provision of real estate management services, which, however, are of subordinate importance in relation to the Group's total revenues. Proceeds from the sale of real estate assets are not reported under sales but in a separate line item, 'Net result from the disposal of investment property' and are also subject to the regulations of IFRS 15.

As part of the conclusion—also taking emerging industry best practices into consideration—it emerged that alstria assumes a principal position with regard to the service charge costs of letting and that these ancillary costs charged to the tenants are to be presented as revenues. The costs incurred relating to the provision of services in this context are presented as real estate operating expenses. This does not result in a change in net rental income.

The following table shows how revenues and the corresponding expenses from property management increased in the 2017 and 2018 financial years compared to the balance sheet to be applied up to December 31, 2017.

EUR k	2018	2017
Revenue in accordance with IAS 18	193,193	193,680
Revenue in accordance with IFRS 15	232,353	231,067
<b>Increase in revenue as result of application of IFRS 15</b>	<b>39,160</b>	<b>37,387</b>
Expenses from property operating expenses due to presentation in accordance with IAS 18	-24,125	-20,769
Expenses from property operating expenses due to presentation in accordance with IFRS 15	-63,285	-58,156
<b>Increase in operating expenses due to presentation in accordance with IFRS 15</b>	<b>-39,160</b>	<b>-37,387</b>

Since alstria applies the retrospective approach with regard to the first-time application of IFRS 15, the comparative information in the consolidated financial statements 2018 has been adjusted for the corresponding periods of the 2017 financial year. Expenses and income from service charges in accordance with IFRS 15 are now presented gross, but their amount does not change. Therefore, the first-time application of IFRS 15 has no impact on the earnings position of the Group.

**New and amended IFRSs and interpretations to existing standards that are not yet effective and that the Group has not adopted early**

EU Endorsement	Standard/interpretation	Content	Applicable for FY beginning on/after	Effects
Oct. 31, 2017	IFRS 16	New standard 'Leases'	Jan. 1, 2019	No material effects
Not yet endorsed	IFRS 17	New standard 'Insurance contracts'	Jan. 1, 2021	None
Not yet endorsed	Amendments to IFRS 3	Business combinations: Definition of a business	Jan. 1, 2020	None
Mar. 22, 2018	Amendments to IFRS 9	Prepayment features with negative compensation	Jan. 1, 2019	None
Not yet endorsed	Amendments to IAS 1 and IAS 8	Definition of 'material'	Jan. 1, 2020	None
Not yet endorsed	Amendments to IAS 19	Plan amendment, curtailment or settlement	Jan. 1, 2019	None
Not yet endorsed	Amendments to IAS 28	Long-term interests in associates and joint ventures	Jan. 1, 2019	None
Not yet endorsed	Annual Improvements to IFRSs	Improvements to IFRSs 2015–2017	Jan. 1, 2019	None
Oct. 23, 2018	IFRIC 23	Uncertainty over income tax treatments	Jan. 1, 2019	Currently None

### IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is generally applicable to all leases. A lease according to the standard exists when the lessor has contractually granted the lessee the right to control an identified asset for a specified period and, in return, the lessor receives consideration from the lessee.

For lessees, the previous distinction between operating leasing and finance leasing is not made. Instead, the lessee has to account for the right of use of a leased asset (so-called 'right-of-use asset' or RoU asset) and a corresponding lease liability for the leasing payment obligations. Exceptions to this are made only for short-term leases and leases for low-value assets. The amount of the RoU asset at the time of acquisition is equal to the amount of the lease liability plus any initial direct costs of the lessee. In subsequent periods, the RoU asset is valued at amortized cost (with two exceptions). The lease liability is the present value of the lease payments that are paid during the term of the lease. Subsequently, the book value of the lease liability is compounded using the interest rate used for discounting and reduced by the lease payments made. Changes in the lease payments lead to a revaluation of the lease liability.

For lessors, on the other hand, the accounting principles known from IAS 17 'Leases,' with a distinction between finance leases and operating leases, remain the same.

The list of criteria for the assessment of a finance lease was adopted unchanged from IAS 17. In addition, the disclosure requirements for lessees and lessors in IFRS 16 have increased considerably in comparison with IAS 17. The objective of the disclosure requirements is to provide information to users of the financial statements so they can gain a better understanding of the effects of leases on the net assets, financial position, and results of operations.

Furthermore, according to IFRS 16, some payment entitlements from lease agreements represent cost allocations that do not provide additional benefits for the customer. These include property tax, building insurance and allowances for asset management services. With the application of IFRS 16, the service charges to be paid by the lessee will be divided between all leasing and non-leasing components identified in the contract. This will result in extended disclosure requirements in the Notes to the consolidated financial statements.

The first-time application of IFRS 16 is not expected to have a material impact on the consolidated financial statements of the Company, as the Group has mainly concluded lease agreements for the commercial leasing of its investment properties, thereby acting as the lessor. The scope of the transactions agreed by the Company as lessee, however, is of minor importance.

The Group will recognize new assets and liabilities for its operating leases of car parking spaces, company cars and photocopiers (see Note 8.2). The nature of expenses related to those leases will now change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a time difference between actual lease payments and the expense recognized.

Based on the information currently available, the Group estimates that it will recognize additional lease liabilities of EUR 4,307 k as at 1 January 2019. At the same amount, the recognition of a "right-of-use" asset is expected.

The Group plans to apply IFRS 16 for the first time on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

No significant impact on financial reporting is expected from the other new standards and amendments to the existing standards listed above.

The Group did not adopt any new or amended standards or interpretations early in the 2018 financial year.

## **2.2 Basis of consolidation**

### **2.2.1 Subsidiaries**

The consolidated financial statements incorporate the financial statements of alstria office REIT-AG and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- exercises authority over the investee;
- is exposed or has rights to variable returns from its involvement with the investee; and
- has the ability to use its authority to affect the amount of its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the Company's owners and noncontrolling interests. The total comprehensive income of the subsidiaries is attributed to the Company's owners and noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

#### **a) Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any noncontrolling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i. e. reclassified to profit or loss or transferred to another category of equity, as specified/permitted by applicable IFRSs).

**b) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. After reassessment, if the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree and fair value of the acquirer's previously held interest in the acquiree fit and the excess is recognized immediately in profit or loss as a bargain purchase gain.

Noncontrolling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of noncontrolling interests are measured at fair value or, when applicable, on the basis specified in another IFRSs.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value, and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive incomes are reclassified as profit or loss, where such treatment would be appropriate if that interest were disposed of.

Significant companies wherein alstria office REIT-AG is directly or indirectly able to significantly influence financial and operating decisions (associates), or directly or indirectly share control (joint ventures), are accounted for using the equity method.

## 2.2.2 Fully consolidated subsidiaries

The Group of consolidated companies, including alstria office REIT-AG, comprised 56 companies in the financial year (2017: 63). As of the balance sheet date, 51 companies (prior-year balance sheet date: 55 companies) existed. In addition, two joint ventures and one noncontrolling interest have been accounted for using the equity method.

In the consolidated financial statements of alstria office REIT-AG, the following companies are included:

No.	Company	Headquarters	Equity interest (%)	Held by no.	Business activity
1	alstria office REIT-AG	Hamburg	Parent company		Asset management; holding
2	alstria Bämlerstraße GP GmbH	Hamburg	100.0	1	General Partner
3	alstria Gänsemarkt Drehbahn GP GmbH	Hamburg	100.0	1	General Partner
4	alstria Englische Planke GP GmbH	Hamburg	100.0	1	General Partner
5	alstria Halberstädter Straße GP GmbH	Hamburg	100.0	1	General Partner
6	alstria Portfolio 3 GP GmbH (vormals alstria Hamburger Straße 43 GP GmbH)	Hamburg	100.0	1	General Partner
7	alstria Ludwig-Erhard-Straße GP GmbH	Hamburg	100.0	1	General Partner
8	alstria Mannheim/Wiesbaden GP GmbH	Hamburg	100.0	1	General Partner
9	alstria Portfolio 1 GP GmbH	Hamburg	100.0	1	General Partner
10	alstria Steinstraße 5 GP GmbH	Hamburg	100.0	1	General Partner
11	alstria solutions GmbH	Hamburg	100.0	1	Service company
12	alstria office Bämlerstraße GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
13	alstria office Gänsemarkt Drehbahn GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
14	alstria office Englische Planke GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
15	alstria office Halberstädter Straße GmbH & Co. KG	1),2)	Hamburg	100.0	1 No activity
16	alstria office Hamburger Straße 43 GmbH & Co. KG	1),2)	Hamburg	100.0	1 No activity
17	alstria office Insterburger Straße GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
18	alstria office Mannheim/Wiesbaden GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
19	alstria Prime Portfolio GP GmbH	Hamburg	100.0	1	General Partner
20	alstria Prime Portfolio 2 GP GmbH	Hamburg	100.0	1	General Partner
21	alstria office Steinstraße 5 GmbH & Co. KG	1)	Hamburg	100.0	1 Own property
22	beehive GmbH & Co. KG	1)	Hamburg	100.0	1 Service company
23	alstria office Prime Portfolio GmbH & Co. KG	1)	Hamburg	94.0	1 Intermediate holding
24	alstria office PP Holding I GmbH & Co. KG	1)	Hamburg	94.0	23 Intermediate holding
25	alstria office Kampstraße GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
26	alstria office Berliner Straße GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
27	alstria office Hanns-Klemm-Straße GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
28	alstria office Maarweg GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
29	alstria office Heerdter Lohweg GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
30	alstria office Solmsstraße GmbH & Co. KG	1)	Hamburg	94.0	24 Own property
31	alstria office PP Holding II GmbH & Co. KG	1)	Hamburg	94.0	23 Intermediate holding
32	alstria office Vichystraße GmbH & Co. KG	1),2)	Hamburg	94.0	31 Own property
33	alstria office Wilhelmstraße GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
34	alstria office Hauptstraße GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
35	alstria office Frankfurter Straße GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
36	alstria office Mergenthaler Allee GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
37	alstria office Am Hauptbahnhof GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
38	alstria office Berner Straße GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
39	alstria office Eschersheimer Landstraße GmbH & Co. KG	1),2)	Hamburg	94.0	31 Own property
40	alstria office Kastor GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
41	alstria office Heidenkampsweg GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
42	alstria office Stiftsplatz GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
43	alstria office An den Dominikanern GmbH & Co. KG	1)	Hamburg	94.0	31 Own property
44	alstria office Carl-Benz-Straße GmbH & Co. KG	1),2)	Hamburg	94.0	31 Own property

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No.	Company		Headquarters	Equity interest (%)	Held by no.	Business activity
45	alstria office Carl-Schurz-Straße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
46	alstria office Pempelfurtstraße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
47	alstria office Josef-Wulff-Straße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
48	alstria office Ingersheimer Straße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
49	alstria office Frauenstraße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
50	alstria office Olof-Palme-Straße GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
51	alstria office Region Nord GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
52	alstria office Region Süd GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
53	alstria office Region Mitte GmbH & Co. KG	1)	Hamburg	94.0	31	Own property
54	Balgebrückstrasse GmbH & Co. KG	1),3)	Hamburg	94.0	31	Own property
55	alstria office PP Holding III GmbH & Co. KG	1)	Hamburg	94.0	23	Intermediate holding
56	alstria office Vaihinger Straße GmbH & Co. KG	1)	Hamburg	94.0	55	Own property

<sup>1)</sup> The Company has made use of the exemption from the obligation to prepare annual financial statements in accordance with the provisions applicable to corporations in accordance with Section 264b HGB.

<sup>2)</sup> Terminated as a result of a step-up merger in 2018.

<sup>3)</sup> Founded with partnership agreement dated September 18, 2018.

Alongside alstria office REIT-AG, the consolidation comprised companies in which the Company directly or indirectly held the majority of voting rights. The consolidated group at the balance sheet date consisted of the Company, 20 domestic subsidiaries, and 30 domestic second-tier subsidiaries. Five subsidiaries were terminated as a result of a step-up merger.

The reporting date for the consolidated financial statements is the same as the reporting date for the Company and consolidated subsidiaries.

There were no further changes to the consolidated Group in the 2018 financial year in comparison to the consolidated financial statements as of December 31, 2017. All Group companies are property management, holding, or general partner companies.

### 2.2.3 Interests in joint ventures and noncontrolling interests

The Group holds interests in two joint ventures that had a carrying amount of EUR 7,650 k at the end of the reporting period.

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name of joint venture	Principal activity	Place of incorporation and business	Proportion of ownership, interest, and voting rights held by the Group	
			Dec. 31, 2018 (%)	Dec. 31, 2017 (%)
Alstria IV. Hamburgische Grundbesitz GmbH & Co. KG	Hold and manage real estate	Hamburg, Germany	49.0	49.0
Alte Post General Partner GmbH i.L. n/a		Oststeinbek, Germany	49.0	49.0

In these consolidated financial statements, the abovementioned joint ventures were accounted for using the equity method.

The following table provides the aggregated information for joint ventures whose individual carrying amounts are not material:

EUR k	2018	2017
The Group's share of profit (loss) from continuing operations	-82	28,064
<b>The Group's share of total comprehensive income</b>	<b>-82</b>	<b>28,064</b>
EUR k	Dec. 31, 2018	Dec. 31, 2017
Aggregate carrying amount of the Group's interests in these joint ventures	7,650	7,733

There were no unrecognized shares of losses of a joint venture or any significant restrictions as to the ability of joint ventures to transfer cash funds to the Group.

Furthermore, alstria holds a noncontrolling interest in an affiliate in the amount of EUR 939 k. The Company was acquired in the 2017 financial year and is considered immaterial. Its business is the investment in innovative real estate technology concepts. The Company recorded a gain of EUR 12 k in the reporting period.

### 2.3 Key judgments and estimates

To a certain degree, estimates, assessments, and assumptions must be made in the course of preparing the Group's consolidated financial statements. These can affect the reported amounts and recognition of assets and liabilities, contingent assets and liabilities on the balance sheet date, and the amounts of income and expenses reported for the period overall. The major items that such estimates, assessments, and assumptions affect are described hereafter. Actual amounts may differ from the estimates. Changes in the estimates, assessments, and assumptions can have a material impact on the consolidated financial statements.

#### 2.3.1 Judgements

Management has made the following discretionary decision in line with the Group's accounting policies. Apart from decisions involving estimations, it has the most significant effect on the amounts recognized in the financial statements:

#### Operating lease commitments—Group as lessor

The Group has entered into commercial property leases in its investment-property portfolio. Based on an evaluation of the terms and conditions of the arrangements, the Group has determined that all significant risks and rewards of ownership of these properties remain with the Group. As a result, the contracts are treated and accounted for as operating leases.

#### Equity settled share-based payment transactions

As part of his remuneration, the Management Board was granted virtual shares in the form of share-based payments (see Notes 13.1). While the virtual shares issued in previous years were cash-settled share-based payments, in the 2018 financial year, share-based payments were for the first time equity settled.

All conditions of the share-based payment conditions were agreed in advance by the parties involved. The predominant value-determining parameters are objectively observable market parameters, such as the share price performance of the alstria share or the performance of a benchmark index. At the end of the term, the number of equity instruments to be granted can be adjusted by the Supervisory Board of the company in a narrow band (so-called discretionary factor). This leads to the question of whether the grant date is in the current financial year or only at the time when the Supervisory Board determines the discretionary factor. In the first case, the virtual shares are measured at fair value at their issue. The amount of the valuation is to be recognized pro rata in equity over the term until conversion. If the grant date falls to the end of the term, the value of the virtual shares must be revalued at each reporting date and recognized as a liability.

The terms of the agreement on which the equity instruments were granted were already fixed when the virtual shares were issued during the reporting period. The main value drivers are observable market parameters. Therefore, the date of issue of the virtual shares is considered to be the date of granting the share-based payment with the result that the virtual shares were valued at the date of issue and recognized pro rata as personnel expenses and in the equity of the Group. The option of the Supervisory Board to exercise a discretionary factor does not exclude this judgement, since it is not a change in the terms of the contract. Furthermore, based on previous practice, a reduction in the number of equity instruments cannot be assumed.

### **2.3.2 Estimates and assumptions**

Significant key sources of estimation uncertainty and key assumptions concerning the future as of the balance sheet date relate to the following balance sheet items. They present a significant risk, possibly resulting in necessary material adjustments to the carrying amounts of assets and liabilities within the next financial year. Applying estimates is particularly necessary to

- determine the fair value of investment property (see Notes 6.1);
- determine the fair value of derivative financial instruments, including the embedded derivative (see Notes 6.5);
- determine the fair value of virtual shares granted to management (see Notes 13.1);
- determine the fair value of limited partnership capital of noncontrolling interests (see Notes 7.2);
- determine the fair value of other provisions (see Notes 7.4); and
- determine the best estimate of convertible profit participation certificates (see Notes 13.2).

At the end of the reporting period, the above-stated assets, liabilities, and equity instruments, which are particularly exposed to estimation uncertainties, had the following impact on the consolidated statement of financial position:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Investment property and properties held for sale, without prepayments made	3,966,540	3,386,558
Positive fair values of derivatives	0	14
Negative fair values of derivatives	0	27,529
Limited partnership capital of noncontrolling interests	64,060	53,881
Other provisions	6,752	4,491
Valuation of convertible profit participation rights and virtual shares	-2,925	-2,773

## 2.4 Summary of significant accounting policies

The following accounting and valuation methods have been used to prepare the consolidated financial statements of alstria office REIT-AG.

### 2.4.1 Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment property, at their fair value at each reporting date.

The fair value of an asset or liability is determined based on the assumptions that market participants would use in pricing the asset or liability, regardless of whether that price is directly observable or estimated by applying another valuation technique. In estimating fair value, it is assumed that the transaction during which the disposal of the asset or the transfer of the liability occurs takes place either

- in the principal market for the asset or liability or
- in the most advantageous market for the asset or the liability if no principal market exists.

The Group must have access to the principal market or the most advantageous market.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis. Hereby excluded are the following:

- share-based payment transactions that are within the scope of IFRS 2 ‘Share-based payments,’
- leasing transactions that are within the scope of IAS 17 ‘Leases,’ and
- measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 ‘Inventories’ or value in IAS 36 ‘Impairment of assets.’

Market prices are not always available to determine the fair value. It must often be determined based on various valuation parameters. In addition, for financial-reporting purposes, fair value measurements are categorized as Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

Level 3 inputs require more extensive disclosures.

#### **2.4.2 Investment property**

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under construction for such purposes). They are not used in production or for administrative purposes. This includes properties that are in production and are intended to serve the aforementioned purposes. Investment properties are measured initially at cost at the time of purchase or construction, including transaction costs. In accordance with IAS 40.17, costs incurred subsequently for dismantling, replacement of parts, or maintenance of property are also included.

Costs of debt, which can be directly allocated to the acquisition or production of investment property, are capitalized in the year in which they arise.

For subsequent measurement, the Company uses the fair value model according to IFRS 13.61 et seq., which reflects an income-capitalization approach combined with market conditions at the end of the reporting period.

In the context of the fair value hierarchy described above, only inputs of Levels 2 and 3 are applicable for property. The majority is categorized as Level 3. Inputs used in the valuation approach the Group has adopted for all of its properties include rental revenues, adjusted yield figures (e. g. property-based capitalization rates), and vacancy periods. These inputs are not observable in markets and considered significant. Therefore, the fair value measurement used by the Group for valuation of all investment properties is generally categorized as Level 3. Information about the significant unobservable inputs used and their sensitivities on the fair values of the Group's investment property is presented in Note 6.1.

Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property derecognized upon disposal or when the investment property is permanently withdrawn from use and future economic benefits are expected from the disposal. Any gain or loss arising upon derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Investment properties are transferred to property, plant and equipment when there is a change in use evidenced by the commencement of owner occupation. The properties' deemed cost for subsequent accounting corresponds to the fair value at the date of reclassification.

### 2.4.3 Valuation process for investment properties

The fair value hierarchy gives no information about the applied valuation techniques.

The basis for deriving fair value as defined by IFRS 13.61 should, if possible, be based on valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, thereby maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The analysis above showed that there was no sufficient number of official comparable transactions to derive any market values. Therefore, fair value was determined based on an income approach in accordance with IFRS 13.61.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. No fundamental change to the valuation method has occurred during the year.

As in the prior year, external real estate experts conducted the valuation of investment property at fair value on December 31, 2018 according to internationally accepted valuation methods in accordance with IFRS using the ‘hardcore-and-top-slice’ method. The fair value measurement was performed by accredited, external, and independent experts (Savills Advisory Services Germany GmbH & Co. KG, Frankfurt am Main, Germany, and Colliers International UK LLP, London).

#### *Description of the hardcore-and-top-slice method*

According to the hardcore-and-top-slice method, rental income is horizontally segmented. The hardcore portion represents the prevailing contractual rent. The top slice represents the difference between market and contractual rent. This method fulfills the requirements of the *Red Book*, a set of international valuation standards, set forth by the Royal Institution of Chartered Surveyors. In addition, the method used by the independent experts is also appropriate and suitable for determining market values in accordance with the provisions of the International Valuation Standards (IVS, or the *White Book*).

To derive the fair value, the properties, which the independent experts evaluated, were divided into two groups and valued accordingly. Group 1 contained properties with anchor lease terms of five years or less, and Group 2 held properties with anchor lease terms of more than five years.

Group 1 is for properties with leases set to expire in five years or less: hardcore-and-top-slice method, taking into account

- the contractual rent for the remaining term of the lease;
- a vacancy period of between 0 and 24 months following the expiry of the lease;
- the necessary maintenance costs to re-let the properties at a comparable rent level;
- re-lets at market rents (accounting for the difference between market and contractual rent);
- capitalization rates reflecting the individual risk of the property and market activity (comparable transactions);
- management costs between 1 and 3 % of the market rent;

- non-allocable costs of ongoing maintenance between EUR 5.00/m<sup>2</sup> and EUR 11.00/m<sup>2</sup> depending on the property standard; and
- the net selling price as comparable.

Group 2 is for properties with anchor leases that are let to tenants with strong credit ratings on a long-term basis (i. e., hardcore-and-top-slice method), taking into account

- the contractual rent for the remaining term of the lease (in the case of open-ended leases, a residual term of one year to half of the previous rental period is assumed);
- re-lets at market rents (accounting for the difference between market and contractual rent);
- capitalization rates reflecting the individual risk of the property and market activity (comparable transactions);
- management costs between 1 and 3 % of the market rent;
- non-allocable costs of ongoing maintenance between EUR 5.00/m<sup>2</sup> and EUR 11.00/m<sup>2</sup> depending on the property standard; and
- the net selling price as comparable.

If the future development of these properties differs from the estimate, large-scale losses resulting from the change in the fair value may be incurred. This can have a negative impact on future earnings. The effects of the most significant input parameters on the valuation of the Group's investment properties are shown in Note 6.1.

The valuation method described also applies to investment properties in which development projects are realized.

Gains or losses arising from changes in the fair values of investment properties are disclosed in the income statement under the item 'Net gain/loss from fair value adjustments on investment property' in the year in which they arise.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

#### **2.4.4 Assets held for sale**

Noncurrent assets intended for disposal under an asset deal are reported separately as being held for sale in the consolidated financial statements if the formally required resolution of the Board – and, when above a certain level of transaction volume, the Supervisory Board – for the sale of a property is met until the end of the reporting period. If the disposal is to take the form of a share deal, noncurrent assets and other assets and liabilities held for sale are reported separately on the consolidated balance sheet.

Assets held for sale are measured at fair value on the date of reclassification and each subsequent reporting date. Gains or losses from measuring individual assets held for sale and disposal groups are

reported under gain or loss on the disposal of investment property until they have been sold.

#### **2.4.5 Leases**

In accordance with IAS 17, the lessee is considered to be the beneficial owner of leased assets if the lessee bears all risks and rewards incidental to the assets (finance lease). If the lessee is deemed to be the beneficial owner, the leased asset is recognized at fair value or at the lower present value of the minimum lease payments at the inception date of the lease. The corresponding leasing liability is recorded as a lease commitment under other noncurrent liabilities. The resulting lease payments are divided into an interest portion and a redemption portion.

#### *Operating leases*

Lease agreements that alstria has entered into with commercial tenants are classified as operating leases under IFRS. Accordingly, alstria acts as a lessor in many different types of operating lease agreements for investment properties. All of the Group's leases are classified as operating leases, as all significant risks and rewards of the Group's real estate remain with alstria. These leases generate the majority of proceeds and income for alstria. Furthermore, to a limited extent, alstria is the lessee within the scope of operating lease agreements.

#### **2.4.6 Revenue and expense recognition**

The Group has initially applied IFRS 15 from 1 January 2018. The effect of the first-time adoption of IFRS 15 is described in Note 2.1.

Revenues and other operating expenses are generally only recognized when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of the asset.

This is usually the case when services are rendered or goods or products have been delivered and the risk has thus been transferred.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. Revenues are recorded, excluding VAT. In addition, the following specific recognition criteria must be met before revenues are recognized.

**Rental income** from operating leases on investment properties is recognized on a straight-line basis over the terms of the relevant lease, regardless of the payment date. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

*Operating expenses* are recognized at the time of the service or when they are incurred.

*Interest expenses and interest income* are recognized using the effective interest method.

#### **2.4.7 Income taxes**

Income tax expenses is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case, current taxes are also recognized in other comprehensive income or directly in equity, respectively.

As a REIT-AG, the parent company, alstria office REIT-AG, is exempt from corporation and trade taxes.

Current tax assets and liabilities for the current and prior periods are shown as the amount expected to be recovered from or paid to the tax authorities. In order to take effect, the determination of the amount is based on the tax rates and tax laws applicable on the reporting date or soon after.

#### **2.4.8 Earnings per share**

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the parent company by the weighted-average number of shares outstanding during the financial year. Diluted earnings per share are calculated based on the assumption that all potentially dilutive securities and share-based payments are converted or exercised.

#### **2.4.9 Impairments of assets according to IFRS 36**

Assets are tested for impairment when triggering events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

An impairment loss is recorded at an amount equivalent to the excess of the carrying amount over the recoverable amount. If the reasons for an impairment loss cease to apply, the impairment loss is reversed as appropriate but not above the maximum value that would have resulted if normal amortization had been charged.

#### **2.4.10 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. They include owner-occupied real estate as well as operating and office equipment. Such costs include the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss as incurred.

The depreciation of operating and office equipment is calculated on a straight-line basis over the estimated useful life of the asset (three to 15 years). The useful life of owner-occupied property is estimated at 33 to 50 years. While the building is depreciated on a scheduled basis, the land is not subject to depreciation.

#### **2.4.11 Intangible assets**

The Group amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives. Estimated useful lives for patents, licenses, and other similar rights generally range from three to ten years. Currently, the Company does not have intangible assets with indefinite useful lives.

## 2.4.12 Financial instruments

### Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### Classification and subsequent measurement

#### Financial assets - Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at:

- amortized cost;
- FVOCI - debt investment;
- FVOCI - equity investment;
- or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (see Note 6.5). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Financial assets - Business model assessment: Policy applicable from January 1, 2018*

With respect to financial assets, the Group pursues a business model whose objective is to hold assets in order to collect the contractual cash flows.

*Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018*

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

A prepayment feature is consistent with the exclusive payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

*Financial assets - Subsequent measurement and gains and losses: Policy applicable from January 1, 2018*

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
<b>Financial assets at amortized cost</b>	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

*Financial assets - Policy applicable before January 1, 2018*

The Group classified its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- at FVTPL, and within this category as:
  - derivative hedging instruments; or

**Financial assets - Subsequent measurement and gains and losses: Policy applicable before January 1, 2018**

<b>Financial assets at FVTPL</b>	Measured at fair value and changes therein, including any interest or dividend income, were recognized in profit or loss.
<b>Held-to-maturity financial assets</b>	Measured at amortized cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortized cost using the effective interest method.

**Financial liabilities - Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value, and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

#### Derecognition

##### ***Financial assets***

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which all significant risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains all significant risks and rewards of ownership and it does not retain control of the financial asset.

##### ***Financial liabilities***

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified significantly and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

## **Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

## **Derivative financial instruments and hedge accounting**

### *Derivative financial instruments and hedge accounting - Policy applicable from January 1, 2018*

Derivative financial instruments, such as interest rate swap contracts, are measured at fair value and classified as being held for trading unless they are designated as hedging instruments, for which hedge accounting is applied.

For the derivative financial instruments, fair value measurements were carried out by independent external experts, with the market data evaluated by these experts being included in the usual valuation models. There could be estimation uncertainties regarding the possible deviation from market data used. We consider the models used to be adequate. In our opinion, they are not subject to any uncertainty as to their applicability.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

### **Cash flow hedges**

The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges is recognized in line item other comprehensive income, and any ineffective portion is recognized immediately in net income. Amounts accumulated in equity are reclassified to net income during the same periods in which the hedged item affects net income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

*Other hedges—policy applicable before and from January 1, 2018*

The Group neither uses any financial derivatives that qualify for the hedging of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges) nor such financial derivatives that qualify for the hedging of a net investment in a foreign operation (net-investment hedge).

*Derivative financial instruments and hedge accounting - policy applicable before January 1, 2018*

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss.

*Cash and cash equivalents - policy applicable before and from January 1, 2018*

The Company considers all highly liquid investments with less than three months' maturity from the date of acquisition to be cash equivalents.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include the cash and cash equivalents defined above, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### **2.4.13 Impairment**

##### **Non-derivative financial assets**

*Policy applicable from January 1, 2018*

Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- bank balances for which credit risk (i. e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Value adjustments on trade receivables are always based at the amount of the expected credit loss over the term. The Group applies the simplified approach in accordance with IFRS 9.5.5.15. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk of a financial asset other than trade receivables has increased significantly if it is more than 30 days past due. For trade receivables the amount of days past due could be significantly higher due to the fact that service charge invoices are regularly under investigation on the tenants' side causing delay accepted by alstria until consent has been met. The same applies for rental receivables not paid by the tenants in case of other disputes relating to the tenancy.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held). This usually does not apply to rental receivables where the usual security deposit of two months net rents is included in the assessment of whether a rental claim is deemed canceled.

The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade.' The Group considers this to be Baa3 or higher per Moody's Corporation, New York, USA or BBB- or higher per Standard & Poor's Corporation, New York, USA.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs for financial assets are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i. e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

#### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial problems of the borrower or issuer;
- a breach of contract such as a default;
- it is probable that the borrower will enter bankruptcy or other financial restructuring; or

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

*Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in whole or in part. For tenants, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

*Non-derivative financial assets*

*Policy applicable before January 1, 2018*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indication that a debtor or issuer would enter bankruptcy; observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

*Financial assets measured at amortized cost*

Losses are recognized in profit or loss and posted to an allowance account. If the Group did not see any realistic prospects for the recoverability of the asset, the relevant amounts were written off. If an event occurred after the impairment was recognized and the amount of the allowance decreased, the decrease in the allowance was recognized in profit or loss.

#### **2.4.14 Provisions**

Provisions are recognized when a present obligation to third parties exists as a result of a past event, a future outflow of resources is probable, and a reliable estimate of that outflow can be made. Provisions are measured, taking all risks into account at the best estimate of future cash outflows required to meet the obligation. If they are not current, they are discounted. Provisions are not offset with reimbursements.

A debt resulting from the termination of employment (severance) is recognized when the Group may not withdraw the offer of such services or, if earlier, the Group has recorded costs related to restructuring.

#### **2.4.15 Share-based payments**

Share-based payments comprise cash-settled liability awards and equity-settled equity awards.

The fair value of equity awards is generally determined using a modified Black-Scholes option-pricing model at the grant date. It measures the total personnel expense, which is to be recognized in profit or loss for the service period and which, in turn, increases equity (paid-in capital) by the same amount. Equity-settled awards are granted to the Group's employees in the form of convertible profit participation certificates, the fair value of which was estimated at the respective grant dates by applying a binary barrier-option model based on the Black-Scholes model; assumptions included an automatic conversion once the barrier was reached. The model took the terms and conditions upon which the instruments were granted into account. This valuation required the Company to make estimates concerning these parameters, which are therefore subject to uncertainty. Furthermore, share-based compensation plans with compensation through equity instruments were issued to the Company's Management Board for the first time in the 2018 financial year. The fair value of these stock awards at the grant date was calculated using a 100,000-path Monte Carlo simulation based on the terms of the LTIP 2018.

Until settlement liability awards are measured at fair value on each balance sheet date, they are classified as provisions. The expense of the period comprises the addition to and reversal of the provision between two reporting dates and the dividend equivalent paid during the period.

Cash-settled liability awards relate to virtual shares granted to the Management Board until the 2017 financial year. The virtual shares are measured at each balance sheet date and are accounted for as provisions. The proportional expense incurred in the period comprises the addition to and reversal of the provision between two reporting dates and the dividend paid during the respective period. This valuation requires the Company to make estimates about certain parameters, and, hence, they are subject to uncertainty. The fair value of the virtual shares granted is allocated to the vesting period subject to the terms of the underlying share-based incentive plan. The resulting personnel expenses incurred an addition to provisions of EUR 1,232 k (December 31, 2017: EUR 1,488 k) and a provision of EUR 2,563 k, as reported in the consolidated financial statements as of December 31, 2018 (December 31, 2017: EUR 2,887 k).

Further details on the share-based payment schemes are given in Note 13 and the remuneration report, respectively.

### **3. SEASONAL OR ECONOMIC EFFECTS ON BUSINESS**

The business activities of alstria office REIT-AG (primarily the generation of revenues from investment properties) are not generally affected by seasonality. However, the sale of one or more large properties can have a significant impact on revenues and operating expenses.

Experience shows that the real estate market tends to fluctuate as a result of factors such as changes in consumers' net income, GDP, interest rates, consumer confidence, demographic factors, and other factors inherent to the market. Changes in interest rates might lead to a modified valuation of the investment property and derivatives.

### **4. SEGMENT REPORTING**

IFRS 8 requires a 'management approach,' under which information on segments is presented to the Management Board on the same basis used for internal-reporting purposes.

The services offered by alstria office REIT-AG exclusively focus on letting activities to commercial-property tenants in Germany. In accordance with IFRS 8, a single reporting segment is identified that comprises all of the Group's operations.

The manner of reporting for this segment is consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources to the operating segments of an entity and assessing their performance. The Group's chief operating decision maker is the Management Board.

A larger number of tenants generate revenues. Total revenues amount to EUR 232,353 k (2017: EUR 231,067 k), of which EUR 30,864 k (2017: EUR 27,446 k) and EUR 28,438 k (2017: EUR 26,509 k) relate to leases to the Group's two largest customers. No other single customer has contributed either 10% or more to the consolidated revenues in the 2017 or 2018 financial year.

### **5. NOTES TO THE CONSOLIDATED INCOME STATEMENT**

#### **5.1 Revenues**

EUR k	2018	2017
Revenues from investment properties	193,193	193,680
Revenues from service charge income	39,160	37,387
<b>Revenues</b>	<b>232,353</b>	<b>231,067</b>

Revenues from investment properties mainly comprised rental income from investment properties. The rental income includes effects totaling EUR 2,696 k (2017: EUR 1,984 k), which are attributable to rent-free periods. In addition, revenues include income from asset management services in relation to the leased real estate properties in the amount of EUR 2,580 k (2017: EUR 2,429 k).

Rental income from property leases contains variable rental income amounting to EUR 7,908 k (2017: EUR 8,275 k). These are rental agreements in which the rental payments are linked to the operating results of the tenants.

## 5.2 Real estate operating expenses

EUR k	2018	2017
Operating costs that can be charged on to tenants	39,132	36,519
Maintenance and refurbishment	8,532	9,086
Vacancy costs	7,482	6,201
Ongoing repairs	4,802	4,275
Legal and advisory fees	488	246
Rent expenses	362	114
Electricity costs	161	150
Insurance expenses	159	373
Property management	155	164
Other expenses	2,012	1,028
<b>Total</b>	<b>63,285</b>	<b>58,156</b>

## 5.3 Administrative expenses

EUR k	2018	2017
Legal and consulting fees	2,345	2,642
Depreciation	794	490
Communication and marketing	703	670
Travel expenses	604	507
Supervisory Board compensation	525	353
Audit fee (audit and audit-related services)	484	757
Recruitment	413	309
Leasing costs	402	436
IT maintenance	386	205
Office equipment	362	299
Insurances	344	213
Office area costs	272	205
Training & workshops	186	151
Contributions	160	191
Other	854	605
<b>Total</b>	<b>8,834</b>	<b>8,033</b>

## 5.4 Personnel expenses

EUR k	2018	2017
Salaries and wages	8,588	7,338
Social insurance contribution	1,458	1,225
Bonuses	2,338	1,986
Expenses for share-based compensation	2,925	2,773
<i>thereof relating to virtual shares</i>	1,343	1,488
<i>thereof relating to the convertible profit participation certificates</i>	1,582	1,285
Amounts for retirement provisions and disability Management Board	144	142
Other	457	359
<b>Total</b>	<b>15,910</b>	<b>13,823</b>

The increase in personnel expenses is based on a higher number of average employees and higher share-based payments.

Convertible profit participation rights granted to employees not only grant the right to a conversion when the conditions apply but also to an annual payment equivalent to the dividend amount paid out per share. Therefore, expenses for share-based compensation resulting from the convertible profit participation rights must be accounted for in equity (for the conversion right) and in liabilities (for the dividend entitlement). Of the total expenses related to the profit participation rights amounting to EUR 1,582 k, EUR 1,518 k were recognized in equity (2017: EUR 1,129 k), while EUR 64 k were recorded as an item in liabilities (2017: EUR 156 k).

The employer's contribution to statutory pension insurance, included in wages and salaries, amounts to EUR 702 k for the 2018 financial year.

On average, the Group employed 139 employees in 2018 (2017: 118).

## 5.5 Other operating income

EUR k	2018	2017
Compensation payments and other recharges	6,559	7,406
Income from the reversal of accrued liabilities	2,771	1,006
<i>of which due to the termination of litigation</i>	101	0
Payments on provisions on doubtful debts	231	296
Property management services	43	335
Compensation for damages	38	379
Other	1,014	717
<b>Total</b>	<b>10,656</b>	<b>10,139</b>

Compensation payments and other charges result from early termination of leases and refurbishment activities conducted by alstria. The latter refers to refurbishments the tenants had originally committed themselves to carry out upon conclusion of the leasing contracts.

In the previous year's period the results from annual operational cost statements for prior years in the amount of EUR 632 k had been disclosed under other operating income. The item relates to pre-payments received in previous financial years, which were definitively collected after the final service charge calculation had been prepared by the Company. Since these are sales revenues in accordance with IFRS 15, they were reclassified in the current year to Revenues from service charge income.

### 5.6 Other operating expenses

EUR k	2018	2017
Revaluation of the limited partnership capital noncontrolling interests	12,261	9,210
Settlement agreements	444	676
Impairment on trade receivables	247	698
Transaction and restructuring costs following the alstria office Prime takeover	27	1,971
Property disposal costs	0	1,160
Remaining other operating expenses	767	656
<b>Total</b>	<b>13,746</b>	<b>14,371</b>

Other operating expenses are at the previous year's level. Although the consequential costs resulting from the integration of the Prime Portfolio declined significantly, there was a considerable amount of additional costs resulting from the revaluation of the limited partnership noncontrolling interests.

Impairment on trade receivables mainly relates to tenants subject to insolvency or eviction proceedings. The item also includes valuation allowances related to disputed invoicing of ancillary costs.

In the year under review, property disposal costs are recognized, unlike in the previous year, in the net result on the disposal of investment property.

### 5.7 Net result on the disposal of investment property

EUR k	2018	2017
Proceeds from the disposal of investment property	109,080	119,200
Carrying amount of investment property disposed	-94.193	-99,507
<b>Total</b>	<b>14,887</b>	<b>19,693<sup>1)</sup></b>

<sup>1)</sup> Due to the presentation of the real estate sale costs in the previous year as other operating expenses (see Note 5.6), the net result from the disposal of investment property of the previous year contains no real estate sales costs.

The total loss from the disposal of objects and portfolios sold below their carrying value amounted to EUR 336 k in 2018 and EUR 194 k in 2017.

## 5.8 Financial and valuation result

The financial result breaks down as follows:

EUR k	2018	2017
<b>Income from financial instruments</b>	<b>745</b>	<b>816</b>
Interest expenses, corporate bonds	-21,138	-23,314
Interest expenses, convertible bond	-1,783	-5,357
Interest expenses, other loans	-3,433	-3,585
Interest result ‘Schuldschein’	-3,186	-3,248
Other interest expenses	-282	-480
<b>Financial expenses</b>	<b>-29,822</b>	<b>-35,984</b>
Commitment fees	-385	-152
Agency fees	-13	-38
Fees, loan premium and effective interest costs in relation to the repayment of loans and corporate bonds before maturity	0	-31,981
Other	-22	-369
<b>Other financial expenses</b>	<b>-420</b>	<b>-32,540</b>
<b>Net financial result</b>	<b>-29,497</b>	<b>-67,708</b>

The total interest income and expenses for financial assets and liabilities other than financial derivatives amounted to an interest income of EUR 745 k (2017: EUR 816 k) and EUR 29,822 k of interest expenses (2017: EUR 35,984 k), respectively.

The total interest expenses calculated by applying the effective interest method for financial liabilities (i. e., not recognized at fair value through profit or loss) amounted to EUR 2,286 k (interest expenses, 2017: EUR 2,122 k).

The prior-year’s premium and the effective interest expense due to the repayment of loans or corporate bonds in the amount of EUR 31,981 k relate to the proportionate repurchase of two corporate bonds prior to their regular maturity (see also the explanations of corporate bonds in Notes 7.3 Loans and bonds). As part of a tender offer for repurchase, bonds with a nominal value of EUR 348,200 k were bought back in the market. The premium to be paid on the basis of the bond prices at the time of the repurchase amounted to EUR 29,172 k. The reversal of the allocated accrued original ancillary costs of the bond placement at the time of the repurchase amounted to EUR 2,809 k.

In neither of the two former financial years did the Group hold any financial assets available for sale. Therefore, the net result from the disposal of financial assets available for sale amounted, as in the previous year, to EUR 0.

Fair value adjustments on financial derivatives resulted in a net loss:

EUR k	2018	2017
Ineffective change of the fair value of cash flow hedges	-14	-25
Change in fair value of financial derivatives not qualifying as a cash flow hedge	2,466	-9,309
<b>Net loss from fair value adjustments on financial derivatives</b>	<b>2,452</b>	<b>-9,334</b>

Further details and explanations on derivatives are presented in Note 6.5.

### 5.9 Income tax expenses

On January 1, 2007, alstria office REIT-AG obtained G-REIT status. At this time, it was subject to final taxation and has been tax exempt with regard to corporate tax and trade tax effectively since then.

With the acquisition of the alstria office Prime, however, companies were included in the consolidated financial circle that are not subject to the REIT exemption. This resulted in expenses for income taxation at the level of the alstria office Prime subgroup.

Income tax expense comprises only current tax expenses, as a deferred tax result is no longer expected due to the de facto tax exemption of the Group.

## 6. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS

### 6.1 Investment property

This item, comprising investment properties held by the Company, breaks down as follows:

Fair values in EUR k	2018	2017
As of January 1	3,331,858	2,999,099
Property acquisition	172,375	187,723
Capital expenditure	86,420	58,780
Disposals	-48,850	-42,800
Transfers <u>to</u> held for sale	-11,408	-43,100
Transfers <u>to</u> property, plant & equipment (own used property)	-307	-14,836
Transfers <u>from</u> property, plant & equipment (own used property)	7,878	0
Net result from the adjustment of the fair value of investment property	398,954	181,492
<b>Subtotal</b>	<b>3,936,920</b>	<b>3,326,358</b>
Prepayments made	1,944	5,500
<b>As of December 31</b>	<b>3,938,864</b>	<b>3,331,858</b>

In the 2018 financial year, six properties were sold or reclassified as assets held for sale. Two of the properties are still included in the items held for sale at the end of the financial year. Together with an object held for sale on the previous year's balance sheet date, three properties with a transaction volume of EUR 29,620 k are reported as held for sale as of the reporting date.

Property transaction	Acquisition		Disposal	
	Number of properties	Transaction amount in EUR k	Number of properties	Transaction amount in EUR k
Contract signed in 2017, transferred in 2018	2	82,584	1	44,000
Contract signed and transferred in 2018	4	84,575	4	65,080
Contract signed in 2018, transferred 2019	2	15,820	2	29,620
<b>Total</b>	<b>8</b>	<b>182,979</b>	<b>7</b>	<b>138,700</b>

Capital expenditure (EUR 86,420 k) comprises subsequent acquisition and production costs relating to property acquisitions and refurbishment projects.

For more information on changes to the immovable property, please refer to the ‘Transactions’ section in the Group management report for the 2018 financial year (see page 8 f).

Borrowing costs that would have had to be capitalized as construction costs were not incurred during the reporting period (2017: EUR 0).

The alstria office REIT-AG applied the fair value model pursuant to IAS 40.33 et seq. for subsequent measurement of investment property. External appraisals were obtained for measurement. For a detailed description of the valuation of assets, please see Note 2.4.

The item on the income statement ‘net result from fair value adjustments on investment property’ of the amount of EUR 22,040 k is attributable to a change in unrealized losses.

As in the previous year, all real estate held as investment property measured at fair value is classified as level 3 in the fair value hierarchy.

The Group has considered the nature, characteristics, and risks of its properties, as well as the level of the fair value hierarchy within which the fair value measurements are categorized, in determining the appropriate classes of investment property.

The following factors help determine the appropriate classes.

- a) The real estate segment: Within all investment portfolios, the majority of the lettable area is dedicated to offices. Therefore, all investment properties belong to one asset class: offices.
- b) The geographical location of all properties is Germany.
- c) The level of fair value hierarchy for all investment properties is level 3.
- d) There are large differences between the contractual lease terms. This also affects the weighted average unexpired lease term (WAULT) for each investment property. A distinction is made between objects with a short, medium, and long WAULT.

As a result, three appropriate classes of investment properties have emerged:

- Germany - Office - Level 3 - short WAULT (0-5 years);
- Germany - Office - Level 3 - medium WAULT (> 5-10 years); and
- Germany - Office - Level 3 - long WAULT (> 10 years).

**Quantitative information about fair value measurements using unobservable inputs (alstria portfolio) (level 3)**

EUR k, unless stated otherwise						
Portfolio	Fair Value on Dec. 31, 2018	Valuation technique	Unobservable inputs	Range		Weighted average
<b>German offices</b>	<b>3,936,920<sup>1)</sup></b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	7.1	21.9	12.7
Number of properties:			Adjusted yield	3.0%	8.7%	5.0%
115			Void period of office leases expiring within the next 5 years [months]	0.0	24.0	11.0
<b>5 &lt; WAULT ≤ 10 Years</b>						
<b>German offices</b>	<b>2,420,908</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	7.1	22.8	12.8
Number of properties:			Adjusted yield	3.4%	8.7%	5.3%
78			Void period of office leases expiring within the next 5 years [months]	0.0	24.0	10.8
<b>WAULT &gt; 10 Years</b>						
<b>German offices</b>	<b>1,243,607</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	7.9	17.9	12.7
Number of properties:			Adjusted yield	3.2%	6.0%	4.5%
31			Void period of office leases expiring within the next 5 years [months]	0.0	24.0	12.3
<b>German offices</b>	<b>272,405</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	10.0	18.1	11.7
Number of properties:			Adjusted yield	3.0%	4.6%	3.4%
6			Void period of office leases expiring within the next 5 years [months]	0.0	12.0	11.9

<sup>1)</sup> Fair value of investment property without prepayments of EUR 1,944 k.

**Sensitivity of measurement to variance of significant unobservable input**

A decrease in the estimated rental income decreases the fair value.

An increase in the vacancy period decreases the fair value.

An increase in the adjusted yield decreases the fair value.

A decrease in the estimated rental income leads to an increase in the adjusted yield; an increase in the estimated rental income leads to a decrease in the adjusted yield.

A decrease in the vacancy period leads to an increase in the adjusted yield; an increase in the vacancy period leads to a decrease in the adjusted yield.

The external assessors have carried out sensitivity analyses on their fair value assessments, which show the effect of changes in capitalization rates (adjusted yield) on fair market values.

**Fair value of investment properties (EUR m)**

Capitalization rates	Dec. 31, 2018	Dec. 31, 2017
-0.25%	4,190	3,523
0.00%	3,937	3,332
0.25%	3,700	3,162

**Operating lease commitments - Group as lessor**

The Group has entered into commercial property leases on its investment property portfolio, which consists of the Group's offices and commercial real estate. These noncancelable leases have remaining maturity of between one and 18 years. Most leases include an indexation clause allowing rental charges to be raised annually according to prevailing market conditions.

Future minimum rental charges receivable as agreed on in noncancelable operating leases are as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Within 1 year	187,337	182,475
After 1 year but not longer than 5 years	452,179	454,425
Longer than 5 years	309,062	315,742
<b>Total</b>	<b>948,578</b>	<b>952,642</b>

Disclosures concerning expenses/income as recorded in the income statement pursuant to IAS 40.75 (f) include:

- EUR 232,353 k (2017: EUR 231,067 k) rental income from investment properties;
- EUR 55,804 k (2017: EUR 51,956 k) operating expenses (including repairs and maintenance) directly allocable to investment properties from which rental income was generated during the period under review; and
- EUR 7,482 k (2017: EUR 6,201 k) operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period under review.

Investment properties, held-for-sale properties, and own used properties amounting to EUR 658,065 k (December 31, 2017: EUR 618,329 k) served as collateral for bank loans.

**6.2 Equity-accounted investment**

At the end of the reporting period, two companies in which alstria office REIT-AG holds a share of 49.0% were treated as joint ventures and accounted for using the equity method. The carrying amount of the joint ventures at the end of the reporting period was EUR 7,650 k (December 31, 2017: EUR 7,733 k). In addition, alstria holds interests in an entity with a carrying amount of EUR 939 k. For further information, please refer to Note 2.2.3.

### 6.3 Intangible assets and property, plant, and equipment

The intangible assets consist of software licenses and licenses to other rights with carrying amounts of EUR 226 k and EUR 123 k, respectively. The useful life of the intangible assets is estimated to be between three and five years.

The alstria office REIT-AG occupies areas for its own use in four of its office buildings in Hamburg, Berlin, Düsseldorf, and Frankfurt. Therefore, the owner-occupied areas of the properties are categorized as ‘property, plant and equipment,’ according to IAS 16 and amortized according to plan.

In the 2018 financial year, the owner-occupied use ended for office space with a market value of EUR 7,878 k. As a result, the office space was transferred from property, plant and equipment to investment property. The carrying amount of these areas amounted to EUR 4,393 k at the time of the transfer. The increase in value of EUR 3,485 k was recognized in other comprehensive income and allocated to the revaluation surplus.

The carrying amount of all own used areas equals EUR 17,585 k as of the balance sheet date, compared to EUR 21,049 k on the previous year’s reporting date. The decline resulted from the move from the offices of the former headquarters of the company in Hamburg at the beginning of 2018.

The following table shows the development of property, plant and equipment.

EUR k	Plant	Furniture and fixtures	Owner-occupied property	Total 2018
<b>Acquisition and production cost</b>				
<b>As of January 1, 2018</b>	<b>1,266</b>	<b>2,915</b>	<b>21,844</b>	<b>26,025</b>
Transfer from investment property	0	0	307	307
Transfer to investment property	0	0	-5,093	-5,093
Additions	0	240	919	1,159
Disposals	0	0	0	0
<b>As of December 31, 2018</b>	<b>1,266</b>	<b>3,155</b>	<b>17,977</b>	<b>22,398</b>
<b>Accumulated amortization, depreciation, and write-downs</b>				
<b>As of January 1, 2018</b>	<b>1,190</b>	<b>1,597</b>	<b>795</b>	<b>3,582</b>
Additions	12	235	298	545
Transfer to investment property	0	0	-701	-701
Disposals	0	0	0	0
<b>As of December 31, 2018</b>	<b>1,202</b>	<b>1,832</b>	<b>392</b>	<b>3,426</b>
<b>Net book values as of December 31, 2018</b>	<b>64</b>	<b>1,323</b>	<b>17,585</b>	<b>18,972</b>

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EUR k	Plant	Furniture and fix-tures	Owner-occupied property	Total 2017
<b>Acquisition and production cost</b>				
As of January 1, 2017	1,296	2,151	6,657	10,104
Transfer from investment property	0	0	14,836	14,836
Additions	-30	763	351	1,084
Disposals	0	0	0	0
<b>As of December 31, 2017</b>	<b>1,266</b>	<b>2,914</b>	<b>21,844</b>	<b>26,024</b>
<b>Accumulated amortization, depreciation, and write-downs</b>				
As of January 1, 2017	1,184	1,416	690	3,290
Additions	12	181	105	298
Disposals	-6	0	0	-6
<b>As of December 31, 2017</b>	<b>1,190</b>	<b>1,597</b>	<b>795</b>	<b>3,582</b>
<b>Net book values as of December 31, 2017</b>	<b>75</b>	<b>1,317</b>	<b>21,049</b>	<b>22,442</b>

As in the previous year, two of these properties were pledged with a mortgage in order to secure loans from the Group.

Additionally, operating and office equipment in the amount of EUR 1,387 k is shown under property, plant and equipment, compared to EUR 1,393 k as of the previous year's balance sheet date.

### 6.4 Financial Assets

The financial assets of EUR 36,737 k (December 31, 2017: EUR 36,567 k) relate to long-term bank deposits in the amount of EUR 36,494 k and a term up to the 2021 financial year. A further EUR 243 k is attributable to a below 3 %-share in a stock corporation to which alstria cannot exert any significant influence.

## 6.5 Derivative financial instruments

The following derivative financial instruments were in place at the end of the reporting period:

Product	Strike p.a.	Maturity date	Dec. 31, 2018		Dec. 31, 2017	
			(%)	(EUR k)	(EUR k)	(EUR k)
Cap	3.0000	Sept. 30, 2019	50,250	0	50,250	0
<b>Financial derivatives - held for trading</b>			<b>50,250</b>	<b>0</b>	<b>50,250</b>	<b>0</b>
Cap	3.0000	Apr. 30, 2021	45,642	0	46,380	14
Cap	3.0000	Dec. 17, 2018	0	0	56,000	0
<b>Financial derivatives - cash flow hedges</b>			<b>45,642</b>	<b>0</b>	<b>102,380</b>	<b>14</b>
<b>Total interest rate derivatives</b>			<b>95,892</b>	<b>0</b>	<b>152,630</b>	<b>14</b>
Embedded derivative	n/a	June 14, 2018	0	0	7,987 <sup>1)</sup>	-27,529
<b>Total</b>				<b>0</b>		<b>-27,515</b>

<sup>1)</sup> Underlying number of shares subject to conversion in thousands.

The notional amount of the financial derivatives effective at the end of the reporting period is EUR 95,892 k (December 31, 2017: EUR 152,630 k). This includes cash flow hedges and derivatives not qualifying for cash flow hedging.

Derivatives of a notional amount of EUR 50,250 k (December 31, 2017: EUR 50,250 k) are not designated as a cash flow hedge.

On June 7, 2013, alstria issued a convertible bond for a total amount of EUR 79,400 k. With the end of its term on June 14, 2018 all 794 units had been converted into equity instruments of the Company. Due to the terms and conditions of the convertible bond, the conversion right had to be separately accounted for as an embedded derivative.

The value changes of the derivatives are reflected in various items in the balance sheet.

The following table shows the change in financial derivatives since December 31, 2017:

EUR k	Financial assets		Financial liabilities		Total
	Noncurrent	Current	Noncurrent	Current	
<b>Hedging instruments as of January 1, 2018</b>	14	0	0	-27,529	<b>-27,516</b>
Ineffective change in fair value cash flow hedges	-14	0	0	0	-14
Net result from fair value changes in financial derivatives not qualifying for cash flow hedging	0	0	0	2,466	2,466
Termination	0	0	0	25,063	25,063
<b>Hedging instruments as of December 31, 2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The ineffective portion that arises from cash flow hedges amounted to a fair value loss of EUR 14 k (2017: loss of EUR 25 k) and is recognized in profit or loss.

Gains totaling EUR 2,466 k (2017: loss of EUR 9,309 k), which were due to the market value of the derivatives not included in hedge accounting, were recognized in profit or loss in the 2018 income statement.

Overall, this results in a total gain of EUR 2,452 k (2017: loss of EUR 9,334 k), which is presented as the ‘net result from fair value adjustments on financial derivatives.’

## 6.6 Receivables and other assets

Due to the specific nature of the business, the Group considers receivables with a remaining term of up to one year to be current. The following table presents an overview of the receivables of the Group:

EUR k	Dec. 31, 2018	Dec. 31, 2017
<b>Trade receivables</b>		
Rent receivables	6,865	7,153
<b>Other receivables</b>		
Deductible capital gains taxes	4,578	0
VAT receivables	2,176	2,093
Prepayments made	426	684
Creditors with debit balance	315	474
Security deposits and other deposits granted	204	359
Accrued receivables for ‘rent-free periods’	0	10,303
Receivables and other assets	615	847
<b>Other receivables</b>	<b>8,314</b>	<b>14,760</b>

A total of EUR 10,303 k of other receivables consists of deferred amounts resulting from the recognition of total rental revenues on a straight-line basis over the entire term of the lease agreements (rental smoothing). In the reporting period, accrued receivables for ‘rent-free periods’ were reclassified to investment property. The reason for this change in presentation is that the deferred rental receivables can be considered part of the fair value of the investment properties, and the reclassification increases the consistency of the presentation.

The deductible capital gains taxes relate to the taxation on hidden reserves in the course of the change of legal form in subsidiaries in the 2016 financial year. Affected are companies of the Prime Portfolio subgroup which, following the takeover of the former DO Deutsche Office Group, have changed the legal form of a limited liability company into the legal form of a limited partnership.

All receivables are due within one year from the balance sheet date. The fair value of all receivables is equal to their carrying amount.

Trade receivables were written down by EUR 247 k (December 31, 2017: EUR 698 k) due to rent payments in arrears. Apart from trade receivables, no other receivables were impaired. The consideration of expected credit losses on trade receivables, which had to be carried out for the first time in the financial year, resulted in a risk provision of EUR 134 k as of the reporting date. The first-time application effect as of January 1, 2018 amounted to EUR 169 k.

The expected credit losses are calculated based on the simplified impairment model at two levels. For alstria's key tenants, default probabilities observed on the market made available by Bisnode Deutschland GmbH, Darmstadt, Germany, are used. For its receivables from the remaining (non-key) tenants, alstria uses an impairment matrix. The receivables of these other tenants are valued based on historical probabilities of default. Future developments or macroeconomic indicators are monitored, and adjustments are made if necessary. On this basis, alstria estimates the following default rates.

EUR k	0-30 days overdue	31-90 days overdue	91-180 days overdue	More than 180 days overdue
<b>Default rate</b>	0.33%	3.82%	2.77%	5.75%

Trade receivables from tenants of alstria are valued as follows.

EUR k	Gross amount	Provision made for default of receivables over the entire term	Net amount
<b>0-30 days overdue</b>	1,164	-4	1,160
<b>31-90 days overdue</b>	264	-10	254
<b>91-180 days overdue</b>	438	-12	426
<b>More than 180 days overdue</b>	1,212	-70	1,142
<b>Total other tenants</b>	<b>3,078</b>	<b>-96</b>	<b>2,982</b>
<b>Key tenants</b>	<b>3,922</b>	<b>-39</b>	<b>3,883</b>
<b>Total</b>	<b>7,000</b>	<b>-134</b>	<b>6,865</b>

Apart from trade receivables, other receivables or other assets were not impaired.

As of December 31, 2018, trade receivables in the amount of EUR 5,605 k (December 31, 2017: EUR 6,955 k) were past due but not yet impaired. These relate to a number of independent tenants for whom there is no recent history of default.

The aging analysis of these trade receivables is as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
<b>Trade receivables</b>		
Up to 3 months	4,190	4,435
From 3 to 6 months	509	1,056
More than 6 months	906	1,464
<b>Total</b>	<b>5,605</b>	<b>6,955</b>

Receivables from rental agreements and property disposals, as well as insurance receivables and derivative financial instruments, have been assigned to the lenders (Note 7.3) to secure the Group's mortgage-backed loans.

## 6.7 Cash and cash equivalents

EUR k	Dec. 31, 2018	Dec. 31, 2017
Bank balances	132,899	102,078

Current accounts held with banks attract variable interest rates for on-call balances. As of the reporting date, no cash amounts were subject to restrictions. Due to the very low credit default probabilities of the banks for the daily available bank balances, an impairment of cash and cash equivalents was not made. The credit rating was based on observable market parameters.

As of the balance sheet date, EUR 13,171 k have been accrued for interest payment liabilities, which will be payable in the course of the next twelve months (December 31, 2017: EUR 13,278 k).

In addition, cash and cash equivalents include EUR 6,353 k in rent deposits received from tenants and held in trust by the Group (December 31, 2017: EUR 5,414 k). These tenant deposits, recognized under cash and cash equivalents, are offset by an item included under Other Liabilities.

## 6.8 Assets held for sale

The assets held for sale comprise three properties. All three properties were already transferred to the buyer in the first quarter after the reporting period. The sale of properties resulted in disposal revenues of EUR 29,620 k.

As of the previous year's reporting date, two properties were held for sale. While one of the two properties continued to be accounted for as held for sale as of December 31, 2018, the other building was transferred to the buyer in 2018 as planned. The property held for sale as at 31 December 2017 was transferred to the buyer on January 31, 2019 after all agreed conditions had been met by the contracting parties.

EUR 4,420 k out of the income statement item 'gain on disposal of investment property' relates to the assets held for sale shown on the balance sheet date.

The valuation of assets held for sale is based on the contract prices and, therefore, included within level 1 of the fair value hierarchy.

## 7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

### 7.1 Equity

For detailed information on equity, please refer to the consolidated statement of changes in consolidated equity.

#### Share capital

Thousand	Dec. 31, 2018	Dec. 31, 2017
Ordinary shares of EUR 1 each	177,416	153,962

A total of 15,323,121 new shares were issued against cash consideration; this increased alstria office REIT-AG's share capital by EUR 15,323,121. The capital increase was registered in the commercial register on January 31, 2018.

The conversion of profit participation rights (Note 13.2) in the second quarter of 2018 resulted in the issuance of 143,750 new shares by making use of the conditionally increased capital provided for such purposes. The share capital increased by EUR 143,750.00.

All remaining 735 shares of the convertible bond as of the prior year's balance sheet date, with a notional amount of EUR 73,500 k, were converted in the course of the first half year. The conversion resulted in an issuance of 7,987,972 new shares by making use of the conditionally increased capital provided for such purposes (conditional capital 2013).

In total, due to the capital measures stated above, alstria office REIT-AG's share capital increased to EUR 177,416,497 (EUR 23,454,843 higher than on December 31, 2017). As of December 31, 2018, it is represented by 177,416,497 no-par value bearer shares.

The following table shows the reconciliation of the number of shares outstanding:

Number of shares	2018	2017
Shares outstanding on Jan. 1	153,961,654	153,231,217
Issue of new shares against capital contribution in cash	15,323,121	0
Conversion of convertible bond	7,987,972	619,437
Conversion of convertible participation rights	143,750	111,000
<b>As of Dec. 31</b>	<b>177,416,497</b>	<b>153,961,654</b>

The majority of the Company's shares are in free float.

### **Capital reserve**

The capital reserve changed as follows during the financial year:

EUR k	2018	2017
As of Jan. 1	1,363,316	1,434,812
Payment of dividends	-92,170	-79,680
Issue of new shares against capital contribution in cash	177,749	0
Cost of issue of new share	-2,611	0
Conversion of convertible bond	90,575	6,944
Share-based remuneration	1,629	1,129
Conversion of convertible participation rights	144	111
As of Dec. 31	1,538,632	1,363,316

The new shares generated from the capital increase were placed on the capital markets and sold at a price of EUR 12.60 per share. The issue proceeds exceeded the nominal share capital by EUR 177,749 k and were recognized in capital reserves. After having deducted placement costs of EUR 2,611 k caused by the share placements, the increase of the capital reserve amounted to a net EUR 175,138 k.

The share premium resulting from the conversion of the convertible bond amounted to EUR 90,575 k. It was recognized in the capital reserve.

The share premium resulting from the conversion of 143,750 profit-participation rights resulted in an increase in capital reserves of EUR 144 k.

### **Revaluation surplus**

Following the relocation of the headquarters within Hamburg in the first quarter of the financial year, the office space that had previously been used as owner-occupied property again became investment property and was remeasured at fair value. The fair value revaluation resulted in an increase in the carrying amount of the property in the amount of EUR 3,485 k. The increase in value was recognized in other comprehensive income and allocated to the revaluation surplus.

### **Treasury shares**

As of December 31, 2018, the Company held no treasury shares.

By resolution of the Annual General Meeting held on May 16, 2017, the Company's authorization to acquire treasury shares was renewed. The resolution authorized alstria office REIT-AG to acquire up to 10% of the capital stock until May 15, 2022. There is no intention to make use of this authorization at present.

### **Retained earnings**

Retained earnings as of December 31, 2018, totaled EUR 964,554 k (December 31, 2017: profit carried forward of EUR 437,382 k). At the dividend's due date, alstria office REIT-AG's standalone positive

retained earnings were not high enough for the payment of the dividend according to German GAAP [HGB]. Therefore, the amount of the dividend payouts was released from the available capital reserve in 2018. Furthermore, the first-time adoption of IFRS 9 resulted in valuation effects amounting to EUR 242 k, which were recognized directly in retained earnings.

#### **Authorized capital**

The authorized capital 2017 of the Company in the amount of EUR 30,646 k was limited until May 15, 2018 and was replaced by the authorized capital 2018 by resolution of the Annual General Meeting on May 26, 2018. The authorized capital 2018 allows the Management Board, with the approval of the Supervisory Board, to increase the share capital of the Company by May 25, 2023 by up to a total of EUR 33,950 k.

#### **Conditional capital**

The Company's share capital has been conditionally increased in order to grant convertible profit participation rights to the employees of the Company and its subsidiaries. As of December 31, 2018, the conditional capital amounted to EUR 1,356 k. This was divided into conditional capital III 2015 (EUR 356 k) and conditional capital III 2017 (EUR 1,000 k).

In the year under review, conditional capital III 2015 was used in the amount of EUR 144 k. Conditional capital 2013 was used in the amount of EUR 7,679 k and has otherwise become obsolete.

### **7.2 Noncontrolling interests of limited partners**

In addition to alstria office REIT-AG, other limited partners are minority shareholders in the subsidiary alstria office Prime, which is included in the consolidated financial statements. From the Group's point of view, the equity of these limited partners is to be reported as debt capital in accordance with IFRS. They are shown in the consolidated balance sheet under the item 'limited partnerships of noncontrolling interests'.

In the 2017 financial year, alstria office REIT-AG acquired 2,128,048 limited partner shares. A further 3,593,463 limited partner shares were redeemed against cash compensation by alstria office Prime. In the 2018 financial year, a further 30,287 limited partner shares were acquired.

By the end of the reporting period, the acquisition and redemption of limited partnership shares as well as the change in value of the existing limited partnership shares of noncontrolling interests resulted in expenses of EUR 12,261 k (2017: EUR 9,317 k). The fair value of the limited partnerships of noncontrolling interests reported as of the balance sheet date amounted to EUR 64,060 k, whereby EUR 64,013 k are to be classified as long-term and EUR 47 k as short-term.

### 7.3 Financial liabilities

EUR k	Noncurrent		Current		Total Dec. 31, 2018
	Loan	Accrued interest	Total current		
<b>Loans</b>					
Corporate bonds	993,843	0	11,344	11,344	1,005,187
Mortgage loans	228,477	0	173	173	228,650
Schuldschein	113,770	1,000	1,654	2,654	116,424
<b>Total</b>	<b>1,336,090</b>	<b>1,000</b>	<b>13,171</b>	<b>14,171</b>	<b>1,350,261</b>

EUR k	Noncurrent		Current		Total Dec. 31, 2017
	Loan	Accrued interest	Total current		
<b>Loans</b>					
Corporate bonds	992,215	0	11,343	11,343	1,003,558
Mortgage loans	240,179	1,076	86	1,162	241,341
Schuldschein	149,571	0	1,752	1,752	151,323
Convertible bond	0	72,096	97	72,193	72,193
<b>Total</b>	<b>1,381,965</b>	<b>73,172</b>	<b>13,278</b>	<b>86,450</b>	<b>1,468,415</b>

The table presents the long-term loans and the net of the current portion as stated under noncurrent liabilities. Furthermore, it shows the current amount due within one year, recorded as an item in short-term loans in current liabilities.

As of December 31, 2018, the total repayable amount of the corporate bonds, the bank loans, the Schuldscheindarlehen, and the convertible bond drawn by alstria (as of the prior year's balance sheet date) was EUR 1,345,700 k (December 31, 2017: EUR 1,467,287 k). The carrying amount of EUR 1,350,261 k (EUR 1,336,090 k, noncurrent, and EUR 14,171 k, current) takes interest liabilities and accrued transaction costs into account. Financial liabilities with a maturity of up to one year are recognized as current loans.

The following table shows the changes in financial liabilities:

EUR k	December 31, 2017	Payments of the period	Reclassification non-current/current	Changes in fair value	December 31, 2018
Long-term loans and bonds, net of current portion	1,381,965	-11,434	-36,577	2,136 <sup>1)</sup>	1,336,090
Short-term loans	86,450	-110,153	36,577	1,297 <sup>2)</sup>	14,171
<b>Total</b>	<b>1,468,415</b>	<b>-121,587</b>	<b>0</b>	<b>3,433</b>	<b>1,350,261</b>

<sup>1)</sup> Changes in deferred loan costs (effective interest).

<sup>2)</sup> Changes in the accrued interest.

The cash changes in borrowings shown in the column 'Payments of the period' include, in addition to the cash inflows and outflows from loans and corporate bonds, the payments of transaction costs for taking out loans.

### **Corporate bond I**

In the fourth quarter of the 2015 financial year, a bond loan in the total amount of EUR 500,000 k with a maturity until March 24, 2021, and a coupon of 2.25% p.a. was issued.

As result of the invitation to tender for the existing corporate bond, on November 16, 2017, alstria office REIT-AG repurchased shares with a notional amount of EUR 173,200 k. Following settlement of the invitation and cancellation of the relevant bond notes, the outstanding notional value of the bond still amounts to EUR 326,800 k. The bond was recognized with its carrying amount of EUR 325,354 k; additionally, interest liabilities in the amount of EUR 5,701 k were recognized as of the balance sheet date. The fair value (hierarchy level 1) amounted to EUR 336,310 k as of the balance sheet date.

### **Corporate bond II**

In the second quarter of the previous year's reporting period, a second bond loan in the total amount of EUR 500,000 k with a maturity until April 12, 2023, and a coupon of 2.125% p.a. was issued. As result of the invitation to tender for the existing corporate bond, on November 16, 2017, alstria office REIT-AG repurchased shares with a notional amount of EUR 175,000 k. Following settlement of the invitation and cancellation of the relevant bond notes, the outstanding notional value of the bond still amounts to EUR 325,000 k. The bond was recognized with its carrying amount of EUR 322,458 k; additionally, interest liabilities in the amount of EUR 4,995 k were recognized per the balance sheet date. The fair value (hierarchy level 1) amounted to EUR 334,750 k as of the balance sheet date.

### **Corporate bond III**

In the fourth quarter of 2017, alstria office REIT-AG issued a corporate bond with a maturity until November 2027, a total nominal value of EUR 350,000 k, and a coupon of 1.5 % p.a. After deducting the deferred loan ancillary costs, the bond was recognized at the end of the year with a carrying amount of EUR 346,032 k. Interest liabilities amounting to EUR 647 k were accrued as of the balance sheet date. The fair value (hierarchy level 1) amounted to EUR 315,350 k as of the balance sheet date.

### **Mortgage loans**

These are property-related bank loans, most of them with variable interest rates. The loans are secured by mortgages and other collateral customary for bank loans.

### **Schuldschein**

As of May 6, 2016, alstria issued a Schuldschein [debenture bond] with a nominal value of EUR 150,000 k. The Schuldschein has an average coupon of 2.07% p.a. payable according to end-of-year convention and a staggered term of between four and ten years (see table on page 120). With effect from November 6, 2018, the floating-rate loan shares in the amount of EUR 35,000 k were repaid before the end of their term, so that the Schuldschein has a notional value of EUR 115,000 k at the end of the reporting period. The fair value (hierarchy level 2) amounted to EUR 127,303 k as of the balance sheet date.

### Convertible bond

In the second quarter of the 2013 financial year, alstria office REIT-AG issued a convertible bond, generating proceeds of EUR 79,400 k. The convertible bond has a maturity term of five years. It will be redeemed at 100% of its principal amount. It has a coupon of 2.75% p.a., payable in quarterly installments in arrears, and an initial conversion price of EUR 10.0710. In line with the terms and conditions of the convertible bond, the conversion price was most recently adjusted to EUR 8.9948.

More information on the terms and conditions of the syndicated loan and the other loans can be found in the table on page 120 in Notes 14.1 of the Notes.

### Further details regarding the loan liabilities

The current portion of the loans refers to scheduled repayments and accrued interest on the loans.

The variable interest of the loans is payable on a quarterly basis, whereby the standard margin and borrowing costs for the market are added to the respective EURIBOR rate.

Due to the variable interest rate of the main part of the mortgage loans, there are no significant differences between the carrying amounts and the fair value of these loans, with the exception of transaction costs.

A total of EUR 37,100 k (December 31, 2017: EUR 37,100 k) in financial liabilities from mortgage loans relates to a fixed interest rate loan. At the end of the reporting period, the loan had a fair value of EUR 42,175 k (December 31, 2017: EUR 42,499 k). The fair value estimation is based on the discounted cash flows using quoted prices for loans with equivalent risk and maturity as a discount rate (level 2 in fair value hierarchy).

As of December 31, 2018, the loans and the convertible bond were reduced by accrued transaction costs of EUR 8.610 k (December 31, 2017: EUR 12,150 k).

The average debt maturity decreased from 5.8 years as of December 31, 2017, to 5.5 years as of December 31, 2018. The Group's average interest rate decreased from 1.9% to 1.8% from balance sheet date to balance sheet date.

The carrying amounts of the loans are all reported in Euro. With the exception of the fixed rate loan, the corporate bonds, the Schultschein, and the convertible bond described above, the fair values of the Group's financial liabilities approximate their carrying values at the end of the reporting period. This does not apply to their accrued transaction costs.

As of December 31, 2018, a loan facility of EUR 100.000 k was in place.

The liabilities exposed to an interest rate risk are due as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Up to 1 year	0	1,076
More than 1 year	191,800	238,811
<b>Total</b>	<b>191,800</b>	<b>239,887</b>

The following loans are secured by land charges:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Financial liabilities secured by land charges	229,400	246,330
<i>thereof on investment property</i>	223,476	241,027
<i>thereof on own used property</i>	5,924	5,303

#### 7.4 Other Provisions

EUR k	Due		Total Dec. 31, 2018	Due		Total Dec. 31, 2017
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
<b>Other provisions</b>						
Provision virtual share liabilities	1,288	1,275	2,563	1,388	1,499	2,887
Other	4,189	0	4,189	1,604	0	1,604
<b>Total</b>	<b>5,477</b>	<b>1,275</b>	<b>6,752</b>	<b>2,992</b>	<b>1,499</b>	<b>4,491</b>

The development of other provisions is shown in the following overview:

EUR k	Dec. 31, 2017	Consumption	Resolution	Additions	Dec. 31, 2018
<b>Development of other provisions</b>					
Provision virtual share liabilities	2,887	-1,556	0	1,232	2,563
Other	1,604	-65	-1,035	3,685	4,189
<b>Total</b>	<b>4,491</b>	<b>-1,621</b>	<b>-1,035</b>	<b>4,917</b>	<b>6,752</b>

As of the balance sheet date, EUR 2,563 k (December 31, 2017: EUR 2,887 k) was recognized as a provision for awarding the Long- and Short-Term Incentive Plan (Note 13.1).

Other provisions include EUR 3,125 k of expenses that could result from claims for compensation by third parties. These are mainly claims for alleged refunds, which are considered by alstria to be unjustified. In addition, provisions were made for costs in connection with further litigation concerning smaller amounts.

## 7.5 Trade payables and other liabilities

EUR k	Due		Total Dec. 31, 2018	Due		Total Dec. 31, 2017
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
Trade payables	4,400	0	4,400	7,268	0	7,268
<b>Other current liabilities</b>						
Accruals for outstanding invoices	16,595	0	16,595	18,116	0	18,116
Real estate transfer tax	13,902	0	13,902	11,869	0	11,869
Rent and security deposits received	6,353	5,010	11,363	5,414	4,408	9,822
Other advance payments received	10,120	0	10,120	500	0	500
Customers with credit balances	3,997	0	3,997	2,167	0	2,167
Advance rent payments received	2,564	0	2,564	3,313	0	3,313
Salary obligations	2,238	0	2,238	2,039	0	2,039
Value-added tax liabilities	2,095	0	2,095	3,213	0	3,213
Supervisory Board compensation	525	0	525	353	0	353
Auditing costs	332	0	332	527	0	527
Vacation provisions	322	0	322	288	0	288
Miscellaneous liabilities	1,164	0	1,164	1,405	0	1,405
<b>Total</b>	<b>60,207</b>	<b>5,010</b>	<b>65,217</b>	<b>49,204</b>	<b>4,408</b>	<b>53,612</b>

The disclosed carrying amounts approximate their fair values.

Real estate transfer tax in the amount of EUR 10,483 k resulted from the merger between Deutsche Office and the Prime Office REIT-AG in the year 2013. For two properties transferred within the merger, the real estate transfer tax obligation is still due. A further EUR 3,420 k of the real estate transfer tax relates to the acquisition of real estate in December of the financial year.

Other advance payments in the amount of EUR 10,120 k were received for the sale of two properties, which were transferred to the buyer in 2019.

## 7.6 Income tax liabilities

The recognition of income tax liabilities as of December 31, 2018, is described in Note 5.9 regarding income tax expenses. Obligations from income taxes arise almost exclusively at the level of the alstria office Prime companies acquired through the business combination on October 27, 2015.

The tax liabilities mainly resulted from taxes arising out of the realization of hidden reserves as a result of the inclusion of the companies in the tax-exempt REIT structure. As a result, no further deferred tax liabilities had to be formed since the 2016 financial year.

## 7.7 Trust assets and liabilities

At the end of the reporting period, alstria office REIT-AG held no trust assets. Trust liabilities existed worth EUR 6,353 k from rent deposits and worth EUR 5,010 k from security deposits. As of December 31, 2017, EUR 5,414 k rent deposits and EUR 4,408 k security deposits existed.

## 8. OTHER NOTES

### 8.1 Compensation of the Management Board and Supervisory Board

**Management Board** The following total remuneration was granted to the members of the Management Board, according to IAS 24.17:

EUR k	2018	2017
Short-term benefits	1,277	1,161
Share-based remuneration	800	905
Postemployment benefits	160	125
<b>Total</b>	<b>2,237</b>	<b>2,191</b>

On the reporting date, liabilities for the compensation of the Management Board members amounted to EUR 433 k (2017: EUR 339 k).

As of December 31, 2018, 291,392 virtual shares (December 31, 2017: 315,600 virtual shares) were issued to members of the Management Board from the cash-settled share-based management remuneration plan implemented in 2010 and the equity-settled management remuneration plan in place since 2018 (see Notes 13.1 ).

**Supervisory Board** Pursuant to the Articles of Association, Supervisory Board members' fixed annual payments amounted to EUR 525 k (2017: EUR 353 k).

Further information on disclosures from HGB Section 314, para. 1, no. 6a (German Commercial Code) and IAS 24.17 is provided in the remuneration report, which is an integral part of these Notes.

### 8.2 Other financial commitments and contingencies

Other financial obligations from refurbishment projects and ongoing maintenance amounted to EUR 30,324 k (2017: EUR 24,317 k).

As of December 31, 2018, rental agreements for the car parking spaces and administrative premises were subject to a minimum lease term. Future financial obligations of EUR 5,453 k arose from other leasing agreements. Of these, obligations totaling EUR 390 k have a residual maturity of up to one year; obligations in the amount of EUR 1,113 k have a remaining maturity of one to five years, the remaining EUR 3,950 k of more than five years.

### 8.3 Consolidated cash flow statement

The cash flow statement shows how the Group's cash and cash equivalents have changed over the course of the financial year as a result of cash received and paid. In accordance with IAS 7, a distinction is made between cash flows from operating activities and cash flows from investing and financing activities.

Cash flows from investing and financing activities are calculated based on payments, whereas cash flows from operating activities are derived indirectly based on the consolidated profit for the year.

The net cash generated from operating activities for the 2018 financial year amounted to EUR 119,014 k and was slightly below the level of previous year's operating cash flow (EUR 122,268 k). The net cash generated from operating activities includes other non-cash income and expenses in the amount of EUR 5,616 k. These essentially relate to allocation to provisions and other liabilities.

The cash flow from investing activities is affected by the inflow of cash and cash equivalents from property disposals in the amount of EUR 119,200 k, while investments in the investment property portfolio resulted in cash outflows of EUR 253,119 k.

The cash flows from financing activities mainly reflect cash inflows from the capital increase in the amount of EUR 190,460 k and from borrowings of EUR 60,000 k. Cash outflows resulted from the repayment of loans in the amount of EUR 108,088 k and the dividend distribution in the amount of EUR 92,170 k.

Cash and cash equivalents reported in the cash flow statement relate to all liquidity items disclosed on the balance sheet (e. g. cash in hand and bank balances).

## **9. RELATED PARTY RELATIONSHIPS**

### **9.1 Preliminary remarks**

Related parties are the Management Board, the members of the Supervisory Board, the managing directors of subsidiaries and second-tier subsidiaries, and their close relatives. Related parties also include entities with a controlling influence over the Group and entities with joint control or significant influence over alstria office REIT-AG.

The majority of alstria office REIT-AG's shares are free-floating shares. No person or entity has a controlling influence over the Company. alstria office REIT-AG is the ultimate parent company of the Group.

Joint ventures over which alstria office REIT-AG has joint control are also considered related parties.

In the view of alstria office REIT-AG's management, all transactions with related parties entered into in the 2018 financial year were undertaken in terms of arm's-length transactions or under conditions in alstria office REIT-AG's favor.

### **9.2 Remuneration of key management personnel**

For a detailed description of the remuneration of key management personnel, please refer to Note 8.1 and the remuneration report on page 157 to 164.

### **9.3 Related party transactions**

At the end of the reporting period, the Group recorded no receivables from or liabilities to joint ventures. Furthermore, alstria office REIT-AG reimbursed EUR 23 k to joint ventures. In the previous year, alstria received EUR 10 k from the joint ventures as compensation for services connected to real estate.

No further transactions with related parties were carried out during the reporting period.

## 10. EARNINGS PER SHARE

Basic earnings per share are calculated as the quotient of the profit attributable to the shareholders and the weighted average number of shares outstanding during the financial year—except for the average number of treasury shares held by the Company itself.

Diluted earnings per share are calculated by dividing the profit attributable to ordinary owners of the parent company by the weighted average number of ordinary shares outstanding during the year—except for the treasury shares held by the Company itself—plus the weighted average of shares that would be issued as a result of the dilutive potential ordinary shares' conversion.

The following table reflects the income and share data used in the earnings per share computations:

Earnings per share	2018	2017
Profit attributable to the shareholders (EUR k)	527,414	296,987
Average number of shares outstanding (thousands)	174,387	153,402
Basic earnings per share (EUR)	3.02	1.94

The possibility of converting shares in connection with the convertible bond actually converted in the financial year resulted in the following diluted earnings per share.

Diluted earnings per share	2018	2017
Diluted profit attributable to the shareholders (EUR k)	527,665	299,153
Average diluted number of shares (thousands)	176,061	161,390
Diluted earnings per share (EUR)	3.00	1.85

There were no dilution effects resulting from the granted stock options or the convertible profit participation rights during the period under review, as the related vesting conditions had not been satisfied as of the end of the reporting period.

alstria office REIT-AG is authorized to issue up to EUR 1,356 k in shares as conditional capital. These contingently issuable shares could dilute basic earnings per share in the future, but they were not included in the calculation of diluted earnings per share because they are non-dilutive for the period presented.

## 11. DIVIDENDS PAID AND DIVIDENDS PROPOSED

EUR k	2018	2017
Dividends on ordinary shares <sup>1)</sup> not recognized as a liability as of Dec. 31	92,170	79,680
Dividend per share	0.52	0.52

<sup>1)</sup> Refers to all shares except treasury shares on the dividend payment date

At the Annual General Meeting held on April 26, 2018, alstria office REIT-AG resolved to distribute dividends totaling EUR 92,170 k (EUR 0.52 per outstanding share). The dividends were distributed on May 2, 2018. By comparison, the dividends paid out in 2017 totaled EUR 79,680 k (EUR 0.52 per outstanding share).

At the Annual General Meeting, the Management Board intends, in agreement with the Supervisory Board, to submit the following proposal to allocate the unappropriated net income of alstria office REIT-AG for the 2018 financial year:

Distribution of a dividend of EUR 0.52 for each share of no par value entitled to the dividend for the 2018 financial year as of the date of the Annual General Meeting. Payment of the proposed dividend is contingent upon approval by alstria shareholders at the Annual General Meeting on Mai 22, 2019. The proposed dividend of EUR 0.52 per share for the 2018 financial year represents a total payment of around EUR 92.3 million based on the number of shares entitled to dividend at the balance sheet date.

## 12. EMPLOYEES

During the period from January 1 to December 31, 2018, the Company had an average of 139 employees (January 1 to December 31, 2017: 118 employees on average). The average was calculated based on the total number of employees at the end of each quarter. On December 31, 2018, 149 people were employed at alstria, excluding the Management Board members (December 31, 2017: 121 employees).

	Employees	
	Average 2018	December 31, 2018
Real estate management and development	76	83
Finance and legal	38	39
Other occupations	24	27
<b>Total</b>	<b>139</b>	<b>149</b>

## 13. SHARE-BASED REMUNERATION

### 13.1 Share-based remuneration (virtual shares and stock awards) for Management Board members

The virtual shares issued to the Management Board relate to share-based remuneration. In January 2017, the Supervisory Board of the Company adopted an amendment to the remuneration system for members of the Board of Management, which has remained unchanged since 2010 and which came into effect on January 1, 2018. As the term of the granted virtual shares is four years, virtual shares will be issued under the compensation system valid from 2010 and those issued under the criteria of the new compensation system effective January 1, 2018. The latter are referred to as Stock Awards. In the following, therefore, the cornerstones of the virtual shares under the Remuneration System 2010 and the Stock Awards under the new Remuneration System 2018 are explained.

#### 13.1.1 Virtual share based remuneration 2010 to 2017

On March 2, 2010, the Company's Supervisory Board established a new share-based remuneration system as a means of providing success-based remuneration for members of the Management Board. The share-based remuneration is made up of a long-term component, the **Long-Term Incentive Plan 2010 (LTIP 2010)**, and a short-term component, the **Short-Term Incentive Plan 2010 (STIP 2010)**. These plans offer cash-settled and share-based payment transactions, respectively.

Under the LTIP 2010, alstria office REIT-AG grants virtual shares, which entitle the recipient to a conversion into cash payments after four years.

The amount of the conversion payment is based on the number of virtual shares multiplied by the average stock market price of alstria's shares on the Frankfurt Stock Exchange during the 60 trading days prior to the relevant maturity date. An amount equal to the sum of the dividend per share the Company paid to its shareholders between the grant date and the maturity date is added as well; in no event can the payment be higher than 250% of the average stock market price of alstria's shares on the Frankfurt Stock Exchange in the 60 trading days prior to the relevant grant date multiplied by a specified discretionary factor.

The discretionary factor is a multiplier that can vary between 0.8 and 1.2; it is subject to each participant's individual performance during the holding period.

The assessment of the target achievement depends equally on the absolute return of the alstria share price (absolute total shareholder return) and on the relative performance of alstria's share in relation to the EPRA/NA-REIT Index Europe Ex UK (relative total shareholder return).

Since the payment per vested virtual share depends on the average quoted price of alstria's shares for 60 trading days, the quoted average prior to the end of the reporting period essentially represents the fair value of each virtual share.

The virtual shares resulting from the STI 2010 remuneration are subject to a minimum vesting period of two years. Virtual STI 2010 shares are converted into a cash amount after the expiration of the

vesting period. This cash amount is calculated based on the number of virtual shares multiplied by the share price of one alstria share at that time, which is in turn calculated based on a reference period.

### **13.1.2 Stock award bases remuneration starting 2018**

Unlike the STIP 2010, no virtual shares or stock awards will be issued under the STIP 2018.

The structure of the long-term share-based compensation system was retained in principle. The key difference is that LTIP 2010 was a cash-settled share-based remuneration, while the LTIP 2018 provides equity-settled share-based compensation. Apart from that, only simplifications and adjustments were made. As part of the LTIP 2018, the alstria office REIT-AG grants stock awards, which entitle the holder after four years to receive shares in the Company instead of a cash payment as in the LTIP 2010.

The number of the shares to be issued to a member of the Management Board at the end of the term is calculated as the number of stock awards achieved, multiplied by the average price of the alstria shares on the Frankfurt Stock Exchange during the last 60 trading days prior to the respective conversion date, plus an amount equal to the total dividend paid by the Company to its shareholders per alstria share during the respective term of a stock award. But in no case more than 250% of the average price of alstria shares on the Frankfurt Stock Exchange during the last 60 days before the grant date. The number of the shares to be issued to a member of the Management Board is multiplied by a specified discretionary factor.

The discretionary factor is a multiplier that can vary between 0.7 and 1.3, taking into account the individual performance component of each participant during the waiting period.

The basis for determining the performance targets, as in the LTIP 2010, is the absolute and the relative total shareholder return. However, the relative total shareholder return will be weighted more heavily at 75% (previously: 50%). The comparative index for the relative total shareholder return is the FTSE EPRA/NAREIT Developed Europe Index (previously: EPRA/NAREIT Europe Ex-UK Index) for aligning with the standards of the real estate industry.

The fair value of the stock awards at the grant date was estimated using a 100,000-path Monte Carlo simulation based on the terms of the LTIP 2018.

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The following table lists the model specifications used to determine the fair value:

Grant date	March 3, 2018
Expected term of the option (in years)	4.00
Risk-free interest rate (%)	0.11
Volatility of the share (%)	18.77
Volatility of FTSE EPRA/NAREIT Developed Europe Index (%)	16.46
Correlation between share and benchmark index (%)	65.19
Expected dividend yield of the share (%)	4.03
Share price on grant (in EUR)	12.06
Value of the index when granted	2,085.51
Reference Share Price	12.69
Reference price of the FTSE EPRA/NAREIT Developed Europe Index	2,176.16

### Comparison of the key terms of the variable remuneration system 2010 and 2018

	Until 2017	From 2018
<b>STI (Short-Term Incentive)</b>	<ul style="list-style-type: none"> <li>■ FFO as target value</li> <li>■ Threshold for the performance target: 50%</li> <li>■ Discretionary factor to reflect individual performance: 0.8-1.2</li> <li>■ 75% cash payout / 25% payout in virtual shares</li> </ul>	<ul style="list-style-type: none"> <li>■ FFO per share as target value</li> <li>■ Threshold for the performance target: 70%</li> <li>■ Discretionary factor to reflect individual performance: 0.7-1.3</li> <li>■ 100% cash payout</li> </ul>
<b>LTI (Long-Term Incentive)</b>	<ul style="list-style-type: none"> <li>■ Virtual shares with term of 4 years, then payout in cash</li> <li>■ Performance subject to absolute TSR (50%) and relative TSR (EPRA/NAREIT Europe Ex-UK Index) (50%)</li> <li>■ Discretionary factor to reflect individual performance: 0.8-1.2</li> </ul>	<ul style="list-style-type: none"> <li>■ Stock awards with term of min. 4 years, payout in Company shares</li> <li>■ Performance subject to absolute TSR (25%) and relative TSR (FTSE EPRA/NAREIT Developed Europe Index) (75%)</li> <li>■ Discretionary factor to reflect individual performance: 0.7-1.3</li> </ul>

The table below summarizes the number of virtual shares and (from 2018 onwards) stock awards granted under the existing STIP and LTIP that remained outstanding as of December 31, 2018.

Start of deferral period	Reference share price in EUR	End of deferral period	Olivier Elamine	Alexander Dexne
			Number of virtual shares	Number of virtual shares
STI 2016	2017	11.68	2019	5,142
STI 2017	2018	12.24	2020	4,572
LTI 2015	2015	10.97	2019	40,109
LTI 2016	2016	11.71	2020	37,575
LTI 2017	2017	11.52	2021	38,194
LTI 2018	2018	12.69	2022	34,673
				28,361

The development of the virtual shares through December 31, 2018 is shown in the following table:

Number of virtual shares and stock awards	2018		2017	
	LTI	STI	LTI	STI
January 1	295,434	20,166	312,104	20,580
Stock Awards (2017: virtual shares) granted in the reporting period	63,042	8,313	69,444	9,349
Converted into cash in the reporting period	-84,746	-10,817	-86,114	-9,763
December 31	273,730	17,662	295,434	20,166

The 10,817 virtual shares converted into cash under the STIP 2010 resulted in payments to the Management Board in the amount of EUR 152 k within the 2018 financial year. The conversion amount was the weighted average price of the first 20 trading days in the 2018 calendar year plus the dividend paid during the vesting period. It amounted to EUR 14.03, of which EUR 13.01 related to the share price and EUR 1.00 related to the dividend paid.

Under the LTIP 2010, 84,746 virtual shares were converted, resulting in a payout of EUR 1,403 k.

In 2018, the LTIP and the STIP generated remuneration expenses amounted to EUR 1,343 k (2017: EUR 1,488 k) and provisions amounting to EUR 2,563 k (2017: EUR 2,887 k). The Group recognizes the liabilities arising from the vested virtual shares under other provisions.

### 13.2 Convertible profit participation rights program

On September 5, 2007, the Supervisory Board of the Company resolved the issuance of convertible profit participation certificates ('certificates') to employees of the Company and of companies in which alstria office REIT-AG directly or indirectly holds a majority interest. Members of alstria office REIT-AG's Management Board are not considered employees of the Company in terms of this convertible profit participation rights program. The Supervisory Board passed a resolution to specify the details of the convertible profit participation rights program in accordance with an authorization granted by the General Meeting of shareholders on March 15, 2007. The convertible profit participation rights program was renewed by the Supervisory Board with minor modifications in 2012.

in accordance with an authorization granted by the General Meeting of shareholders on April 24, 2012.

The main terms of the program can be summarized as follow:

The nominal amount of each certificate is EUR 1.00, which is payable upon issuance. Under the program, a maximum of 500,000 certificates may be granted, using the conditional capital III 2015 created by the Annual General Meeting in 2015. By the end of the reporting period, certificates were granted corresponding to EUR 323,425 of conditional capital III 2015. In 2017, the Annual General Meeting approved the implementation of additional conditional capital III 2017 with an aggregate nominal value of up to EUR 1,000,000 for the conversion of 1,000,000 certificates. At the end of the reporting period, certificates in relation to this conditional capital III 2017 had been granted for 506,575 certificates.

The certificates are issued as non-transferable rights and are not sellable, pledgeable, or otherwise chargeable.

The maximum term of each certificate is five years.

During its term, each certificate entitles the holder to a disbursement corresponding to the amount of the dividend per share that the Company paid for a full financial year. For certificates held by a beneficiary for less than a full financial year, the profit share is reduced pro rata temporis.

Each certificate shall be converted into one non-par-value bearer share in the Company on the second, third, fourth, or fifth anniversary of the issue date if the Company's then-current stock exchange share price has exceeded the price on the issue date by 5% or more on at least seven non-subsequent trading days (market condition). For the 177,675 certificates issued on May 19, 2017, and the 206,075 certificates issued on April 27, 2018, this market condition was fulfilled until the end of the 2018 financial year.

Upon conversion of a certificate, the beneficiary shall pay an additional conversion price to the Company for each certificate to be converted. The conversion price shall be the aggregate proportionate amount of the Company's share capital to which the certificate entitles the holder; this amount shall be payable in addition to the offer price.

The fair values of the inherent options for conversion were estimated on the respective grant dates using a binary barrier option model based on the Black-Scholes model, and the conversion will be affected automatically once the barrier has been reached. The model takes into account the terms and conditions upon which the instruments were granted.

The following share-based payment agreements under the employee profit participation program existed during the year:

Number of certificates	May 18, 2016	May 19, 2017	April 27, 2018	Total
Grant date of tranche				
January 1, 2018	143,750	179,675	0	323,425
Expired due to termination of employment	0	-2,000	-500	-2,500
Converted	-143,750	0	0	-143,750
Granted	0	0	206,575	206,575
December 31, 2018	0	177,675	206,075	383,750

The relevant amount for the conversion of 143,750 of the 2016 convertible profit participation rights certificates was the relevant XETRA share price on the conversion date: EUR 12.50 per share.

Total expenses relating to convertible profit participation rights amounted to EUR 1,582 k in 2018 (see Note 5.4).

The following table lists the inputs used to determine the fair value of the options for conversion:

Grant date of tranche	May 18, 2016	May 19, 2017	April 27, 2018
Dividend yield (%)	4.28	4.45	4,20
Risk-free interest rate (%)	-0.54	-0.69	-0,56
Expected volatility (%)	21.20	18.37	16,22
Expected life of option (years)	2.00	2.00	2,00
Exercise share price (EUR)	2.00	2.00	2,00
Labor turnover rate (%)	8.10	8.00	7,20
Stock price as of valuation date (EUR)	11.67	11.62	12,39
Estimated fair value of one option for conversion on the grant date	8.57	8.02	8,52

Expected volatility was based on an average of the historical volatility of alstria and the comparable listed companies for the certificates granted until 2017. From the 2018 financial year, the implied volatility of the alstria share was used.

## 14. FINANCIAL RISK MANAGEMENT

### 14.1 Managing financial risk factors

The Group's activities expose it to a variety of financial risks related to interest rates, credit, and liquidity. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. For this purpose, sources of funding are diversified and a balanced maturity profile is planned, enabling a coordinated and continuous refinancing process. The financial instruments chiefly used by the Group are corporate bonds, bank loans, a Schultschein and derivative financial instruments. The main purpose of the debt funding is to finance alstria's business activities. In addition, the Group also owns various financial assets, such as cash and short-term deposits, which arise directly from business activities.

The Group uses derivative financial instruments to hedge floating rate loans. The treasury function (group treasury) within the finance and controlling department carries out the management of financial risks. The group treasury identifies, evaluates, and hedges financial risks in close cooperation with the CFO. The Management Board provides written principles for overall risk management and policies that cover specific areas, such as interest rate risk and credit risk, making use of derivative and non-derivative financial instruments as well as excess liquidity investment.

Derivative financial instruments comprise interest caps. The purpose of these derivative financial instruments is to hedge against the interest risks that arise from the Group's business activities and funding.

The main risks arising from the Group's financial instruments relate to cash flow, interest rates, and liquidity. The Group is exposed to credit risks mainly due to derivative financial instruments being held as assets and due to its bank balances. The amount that best presents the maximum credit risk is the carrying amount of the financial assets. The Management Board decides on strategies and processes for managing specific risk types; these are defined in the following paragraphs.

Risks that could arise as a result of an economic slowdown are seen mainly in the potential default of payment by a major tenant. Due to the fact that all of the Company's main tenants are public institutions or are highly rated, the risk of such defaults is currently limited.

The loan agreements of alstria Group allow for loan-to-value (LTV) ratios as outlined by the following table. As represented in the overview, the Group managed to keep its LTV below the LTV of the loan at the relevant date—in some cases significantly. The risk of a breach of covenant is effectively countered.

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The following table presents the single-LTV ratios and covenants for the Group's loans as of the end of the reporting period:

### **Existing loan agreements as of December 31, 2018**

<b>Liabilities</b>	<b>Maturity</b>	<b>Principal amount drawn as of December 31, 2018 (EUR k)</b>	<b>LTV as of December 31, 2018 (%)</b>	<b>LTV covenant (%)</b>	<b>Principal amount drawn as of December 31, 2017 (EUR k)</b>
Loan #1	June 28, 2024	67,000	37.0	65.0	67,000
Loan #2 <sup>1)</sup>	Apr. 30, 2021	-	-	-	57,975
Loan #3	Mar. 28, 2024	45,900	38.1	75.0	45,900
Loan #4	June 30, 2026	56,000	37.4	65.0	56,000
Loan #5 <sup>2)</sup>	July 31, 2021	-	-	-	15,113
Loan #6	Sept. 29, 2028	60,000	50.0	-	-
<b>Total secured loans</b>		<b>228,900</b>	<b>34.8</b>	-	<b>241,988</b>
Bond #1	Mar. 24, 2021	326,800	-	-	326,800
Bond #2	Apr. 12, 2023	325,000	-	-	325,000
Bond #3	Nov. 15, 2027	350,000	-	-	350,000
Convertible bond	June 14, 2018	-	-	-	73,500
Schuldschein 10y/fixed	May 6, 2026	40,000	-	-	40,000
Schuldschein 7y/fixed	May 8, 2023	37,000	-	-	37,000
Schuldschein 4y/fixed	May 6, 2020	38,000	-	-	38,000
Schuldschein 7y/variable <sup>3)</sup>	May 8, 2023	-	-	-	17,500
Schuldschein 4y/variable <sup>4)</sup>	May 6, 2020	-	-	-	17,500
Revolving credit line	June 15, 2020	-	-	-	-
<b>Total unsecured loans</b>		<b>1,116,800</b>	-	-	<b>1,225,300</b>
<b>Total</b>		<b>1,345,700</b>	<b>33.8</b>	-	<b>1,467,288</b>
<b>Net LTV</b>			<b>30.4</b>		

<sup>1)</sup> Loan agreement terminated, refinancing (Loan #6) occurred on September 28, 2018.

<sup>2)</sup> Loan agreement terminated, refinancing occurred on December 28, 2018.

<sup>3)</sup> Loan agreement terminated, refinancing occurred on November 6, 2018.

<sup>4)</sup> Loan agreement terminated, refinancing occurred on November 6, 2018.

Apart from the risks mentioned above, the Group is not exposed to any commodity or currency risks.

#### **a) Interest rate risk**

The following tables display the carrying amount of the Group's financial instruments that are exposed to interest rate risk by maturity:

<b>EUR k</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>&gt; 4 years</b>	<b>Total</b>
<b>Financial year ending Dec. 31, 2018</b>						
<i>Variable interest</i>						
Mortgage bank loans	0	0	0	0	191,800	191,800
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>191,800</b>	<b>191,800</b>

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EUR k	< 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
<b>Financial year ending Dec. 31, 2017</b>						
<i>Variable interest</i>						
Mortgage bank loans	1,076	1,076	1,076	69,858	131,800	<b>204,886</b>
Schuldschein	0	0	17,500	0	17,500	<b>35,000</b>
<b>Total</b>	<b>1,076</b>	<b>1,076</b>	<b>18,576</b>	<b>69,858</b>	<b>149,300</b>	<b>239,886</b>

With its noncurrent financial liabilities with variable interest rates, alstria is exposed to risks from fluctuations in market interest rates. The interest base for the financial liability (loan) is the three-month EURIBOR rate, which is adjusted every three months. A number of derivative financial instruments were acquired to secure the interest expense. The derivatives' terms to maturity generally correspond to those of the loans. The derivative financial instruments relate to interest caps; that is, the interest is capped at a predetermined maximum. If the maximum interest rate is exceeded, the difference between the actual interest rate and the cap rate is paid out.

The derivative financial instruments of alstria office REIT-AG as of December 31, 2018 are presented on page 97.

These interest rate caps are also used to hedge the obligation underlying the loans.

The following table shows the sensitivity of the Company's loans to consolidated profit or loss and equity due to a reasonably possible change in interest rates (due to the effect on the floating-interest loans). All variables remain constant; the effects from the derivative financial instruments were not factored into this calculation.

### Interest expenses per annum

EUR k	2018	2017
+ 100 bps	1,918	<b>2,399</b>
- 50 bps	-825	<b>-700</b>

The fair market value of derivative financial instruments is also subject to interest rate risks. A change in the interest rate would give rise to the following changes in respective fair market values:

#### aa) Impact on equity

##### Financial derivatives qualifying for cash flow hedge accounting

EUR k	2018	2017
+ 100 bps	9,696	80
- 50 bps	-287	-10

**ab) Impact on income statements and on equity****Financial derivatives not qualifying for cash flow hedge accounting**

Impact from 3-month EURIBOR interest rate changes:

EUR k	2018	2017
+ 100 bps	178	9
- 50 bps	0	0

Impact from changes in alstria office REIT-AG's share price (only relating to the embedded derivative):

EUR k	2018	2017
Share price compared to the 2018 year-end price (EUR 12.90)		
+ 10 percent	n/a	-9,738
- 10 percent	n/a	10,377

**b) Credit risk**

Except for those relating to accounts receivable balances, credit risks are managed at the group level.

The department responsible for managing the operating business property oversees and analyzes credit risks in relation to each reletting activity before the standard payment and lease terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, and credit exposures to customers (including outstanding receivables and other compensatory commitments). Only banks and financial institutions are accepted as counterparties—and only if they are independently rated parties with a minimum rating of 'investment grade.' If tenants are independently rated, these ratings are applied. If there is no independent rating, the tenant's credit quality is assessed, taking into account their financial position, past experience, and other factors. Credit limits are generally not provided to tenants. Lease receivables from tenants are settled in bank transfers, which are usually due at the beginning of each payment term. Tenants must pay a deposit or provide other warranties prior to the start of a lease term.

**c) Liquidity risk**

The Company continually monitors the Group-wide risk of potential liquidity bottlenecks through the use of a liquidity planning tool. The tool uses the expected cash flows from business activities and the maturity of the financial liabilities as a basis for analysis. The Group's long-term refinancing strategy ensures that these medium- and long-term liquidity requirements are met. Such forecasting considers the Group's debt-financing plans, covenant compliance, compliance with internal balance sheet targets, and, if applicable, external regulatory or legal requirements (e. g. G-REIT equity ratio).

At the end of the reporting period, the nominal financial liabilities had the following maturities in line with their contractual maturity (based on the three-month EURIBOR) as of December 31, 2018.

The following chart shows the related future undiscounted cash flows of financial liabilities:

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Financial year ending Dec. 31, 2018</b>							
Corporate bond	0	0	326,800	0	325,000	350,000	1,001,800
Loans	0	0	0	0	0	228,900	228,900
Interest	24,521	24,817	24,720	18,020	18,573	32,633	143,284
Schuldschein	0	38,000	0	0	37,000	40,000	115,000
Trade payables	4,400	0	0	0	0	0	4,400
Other liabilities	53,467	1,003	1,002	1,002	1,002	1,002	58,478
	<b>82,388</b>	<b>63,820</b>	<b>352,522</b>	<b>19,022</b>	<b>381,575</b>	<b>652,535</b>	<b>1,551,862</b>

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Financial year ending Dec. 31, 2017</b>							
Corporate bond	0	0	0	0	326,800	675,000	1,001,800
Loans	1,076	1,076	1,076	69,860	0	168,900	241,988
Interest	19,855	19,160	19,651	18,759	11,328	37,984	126,737
Schuldschein	0	0	55,500	0	0	94,500	150,000
Convertible bond	73,500	0	0	0	0	0	73,500
Trade payables	7,268	0	0	0	0	0	7,268
Other liabilities	62,879	882	882	882	882	882	67,289
	<b>164,578</b>	<b>21,118</b>	<b>77,109</b>	<b>89,501</b>	<b>339,010</b>	<b>977,266</b>	<b>1,668,582</b>

Details on the loans, borrowings, and bonds can be found in Note 7.3. The maturity profile of the loans is shown on page 20 in the Group management report. To secure the bank loans, receivables from rental and property purchase agreements and from insurance and derivative financial instruments were assigned to the lenders; liens were granted on bank accounts, and charges were registered on the land. Obligations arising from floating-interest bank loans were fully secured. Land charges for real estate properties with a carrying amount of EUR 661,393 k (December 31, 2017: EUR 618,329 k) were provided as collateral.

#### 14.2 Capital management

Capital management activities are aimed at maintaining the Company's classification as a REIT in order to support its business activities and maximize shareholder value.

The Group actively manages its capital structure and makes adjustments in response to changes in economic conditions. To maintain or adjust the capital structure, the Group can make a capital repayment to its shareholders or issue new shares. No changes were made to the aims, guidelines, and processes as of both December 31, 2018 and December 31, 2017.

The Company monitors its capital structure by using the LTV indicator as well as the performance indicators relevant for its classification as a REIT. The REIT equity ratio, which is the ratio of equity to immovable assets, is the most important of these indicators. According to the Group's strategy, the REIT equity ratio is aimed at to be well above the REIT equity ratio of 45%, within the relevant

term provided by REIT law. G-REIT status is unaffected as long as the G-REIT ratio is not below 45% at the end of the financial year for three consecutive financial years.

The following ratios are also used to manage capital:

#### Ratios according to G-REIT law

%	2018	2017	G-REIT covenant
Equity ratio according to G-REIT law	67.19	57.12	> 45
Immovable assets	95.54	95.47	> 75
Revenues gained from immovable assets	100.00	100.00	> 75
Income gained from disposal of immovable assets	28.04	32.58	< 50 <sup>1)</sup>

<sup>1)</sup> Within five years, based on the average property value during this period.

The following table shows the carrying amount and fair value of all financial instruments disclosed in the consolidated financial statements:

Assets as per balance sheet (EUR k) as of Dec. 31, 2018	Carrying amount	Nonfinancial assets	Financial assets				
			At amortized costs	Fair value through p/l	Fair value - other income	Total	Fair value
Financial assets	36,737	0	36,493	244	0	36,737	36,737
Derivatives	0	0	0	0	0	0	0
<b>Total long-term</b>	<b>36,737</b>	<b>0</b>	<b>36,493</b>	<b>244</b>	<b>0</b>	<b>36,737</b>	<b>36,737</b>
Trade receivables	6,865		6,865	0	0	6,865	6,865
Tax receivables	43	0	43	0	0	43	43
Receivables and other assets	8,314	426	7,888	0	0	7,888	7,888
Cash and cash equivalents	132,899	0	132,899	0	0	132,899	132,899
<b>Total short-term</b>	<b>148,121</b>	<b>426</b>	<b>147,695</b>	<b>0</b>	<b>0</b>	<b>147,695</b>	<b>147,695</b>
<b>Total</b>	<b>184,858</b>	<b>426</b>	<b>184,188</b>	<b>244</b>	<b>0</b>	<b>184,432</b>	<b>184,432</b>

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Liabilities as per balance sheet (EUR k) as of Dec. 31, 2018	Carrying amount	Nonfinancial liabilities	Financial liabilities			
			Fair value through p/l	At amortized costs	Total	Fair value
Ltd. equity of non-controlling interests	64,013	0	0	64,013	64,013	64,013
Long-term loans	1,336,090	0	0	1,336,090	1,336,090	1,338,077
Other liabilities	5,010	0	0	5,010	5,010	5,010
<b>Total long-term</b>	<b>1,405,113</b>	<b>0</b>	<b>0</b>	<b>1,405,113</b>	<b>1,405,113</b>	<b>1,407,100</b>
Ltd. equity of non-controlling interests	47	0	0	47	47	47
Short-term loans	14,171	0	0	14,171	14,171	14,171
Trade payables	4,400	0	0	4,400	4,400	4,400
Derivatives	0	0	0	0	0	0
Tax liabilities	5,945	5,945	0	0	0	0
Other liabilities	60,207	12,684	0	47,523	47,523	47,523
<b>Total short-term</b>	<b>84,770</b>	<b>18,629</b>	<b>0</b>	<b>66,141</b>	<b>66,141</b>	<b>66,141</b>
<b>Total</b>	<b>1,489,883</b>	<b>18,629</b>	<b>0</b>	<b>1,471,254</b>	<b>1,471,254</b>	<b>1,473,241</b>

Assets as per balance sheet (EUR k) as of Dec. 31, 2017	Carrying amount	Nonfinancial assets	Financial assets				
			At amortized costs	Fair value through p/l	Fair value - other income	Total	Fair value
Financial assets	36,567	0	36,567	0	0	36,567	36,567
Derivatives	14	0	0	14	0	14	14
<b>Total long-term</b>	<b>36,581</b>	<b>0</b>	<b>36,567</b>	<b>14</b>	<b>0</b>	<b>36,581</b>	<b>36,581</b>
Trade receivables	7,153		7,153	0	0	7,153	7,153
Tax receivables	25	0	25	0	0	25	25
Receivables and other assets	14,760	10,987	3,772	0	0	3,772	3,772
Cash and cash equivalents	102,078	0	102,078	0	0	102,078	102,078
<b>Total short-term</b>	<b>124,016</b>	<b>10,987</b>	<b>113,029</b>	<b>0</b>	<b>0</b>	<b>113,028</b>	<b>113,028</b>
<b>Total</b>	<b>160,597</b>	<b>10,987</b>	<b>149,595</b>	<b>14</b>	<b>0</b>	<b>149,609</b>	<b>149,609</b>

Liabilities as per balance sheet (EUR k) as of Dec. 31, 2017	Carrying amount	Nonfinancial liabilities	Financial liabilities			
			Fair value through p/l	At amortized costs	Total	Fair value
Ltd. equity of noncontrolling interests	53,834	0	0	53,834	53,834	53,834
Long-term loans	1,381,965	0	0	1,381,965	1,381,965	1,442,660
Other liabilities	4,408	0	0	4,408	4,408	4,408
<b>Total long-term</b>	<b>1,440,207</b>	<b>0</b>	<b>0</b>	<b>1,440,207</b>	<b>1,440,207</b>	<b>1,500,902</b>
Ltd. equity of noncontrolling interests	47	0	0	47	47	47
Short-term loans	86,450	0	0	86,450	86,450	86,450
Trade payables	7,268	0	0	7,268	7,268	7,268
Derivatives	27,529	0	27,529	0	27,529	27,529
Tax liabilities	13,675	13,675	0	0	0	0
Other liabilities	49,204	3,813	0	45,391	45,391	45,391
<b>Total short-term</b>	<b>184,173</b>	<b>17,488</b>	<b>27,529</b>	<b>139,156</b>	<b>166,685</b>	<b>166,685</b>
<b>Total</b>	<b>1,624,380</b>	<b>17,488</b>	<b>27,529</b>	<b>1,579,363</b>	<b>1,606,892</b>	<b>1,667,587</b>

Independent experts determined the fair value of the derivative financial instruments by discounting the expected future cash flows at prevailing market interest rates.

The net gains and losses from these financial instruments are as follows:

EUR k	2018	2016
Fair value – hedging instruments	-14	-41
Fair value – financial liabilities	2,466	-14,635
At amortized costs	-12,508	-10,015
<b>Total</b>	<b>-10,056</b>	<b>-24,691</b>

The net losses during the reporting period resulted from valuation losses and, in the case of loans and receivables, from write-downs of trade receivables.

#### 14.3 Determination of fair value

The fair value of financial instruments that are not traded in an active market (i. e. over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely on entity-specific estimates as little as possible. If all significant inputs required to ascertain the fair value of an instrument are observable, the instrument is included in level 2.

An independent expert determined the fair value of the derivative financial instruments by discounting the expected future cash flows at prevailing market interest rates. Future cash flows were estimated at the end of the reporting period based on forward interest rates from observable yield curves

and on contractually agreed interest rates. These rates are discounted to reflect the credit risk of the various counterparties.

All of the Group's financial instruments, which are measured at fair value in the balance sheet, are valued by applying the level 2 valuation measurement approach. This only applies to the Group's financial derivatives, as no other financial instruments are measured in the balance sheet at fair value.

## **15. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD**

### **Transfer of benefits and burdens**

In January 2019, the transfer of benefits and burdens of all three properties held for sale as of the balance sheet date took place.

In addition, a property for which the notarial purchase agreement had already been signed in the 2018 financial year was transferred to alstria office REIT-AG.

On January 16, 2019, the notarization of the sale of another property at a transaction price of EUR 40,000 k took place. The transfer of the property to the buyer took place at the beginning of February 2019. On February 18, 2019, the notarial purchase agreement for the sale of a property in Stuttgart was signed at a transaction price of EUR 41,491 k.

## **16. UTILISATION OF EXEMPTING PROVISIONS**

The following German subsidiaries included in the consolidated financial statements of alstria office REIT-AG have made use of the exemption granted in Section 264b HGB:

Certain subsidiaries that have been included in the consolidated financial statements of alstria office REIT-AG have claimed exemption from the obligation to prepare annual financial statements in accordance with the provisions applicable to corporations in accordance with Section 264b HGB. An overview of the companies that made use of the exemption can be found in the table on pages 68 to 69 in Notes 2.2.2.

## **17. DISCLOSURES PURSUANT TO THE WERTPAPIERHANDELSGESETZ [GERMAN SECURITIES TRADING ACT] AND EUROPEAN MARKET ABUSE REGULATION [MAR]**

### **17.1 Ad hoc announcements**

The following table summarizes the announcements pursuant to Art. 17 MAR as published by the Company during the reporting period:

Date	Topic
Jan 29, 2018	Capital increase of up to 15,323,121 new shares to finance further growth
Jan 29, 2018	alstria successfully executed capital increase
Jan 14, 2019	Portfolio valuation will lead to a positive P&L impact of approx. EUR 400 million in 2018

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### 17.2 Directors' dealings

The following transactions regarding the shares of the Company (ISIN DE000A0LD2U1) have been reported to the Company pursuant to Art. 19 MAR during the reporting period:

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Olivier Elamine	CEO	Buy	Outside a trading venue	Mar 06, 2018; UTC + 1	12.20	7,503.00
Olivier Elamine	CEO	Buy	Outside a trading venue	Mar 06, 2018; UTC + 1	12.20	53,497.00
Aggregated information for the transactions by Mr. Elamine on March 06, 2018: Average weighted share price: EUR 12.2000; aggregated volume: EUR 61,000.0000						

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Marianne Voigt	Member of the Supervisory Board	Buy	XETRA	Mar 21, 2018; UTC + 1	12.37	30,925.00
Aggregated information for the transaction by Ms. Voigt on March 21, 2018: Average weighted share price: EUR 12.37; aggregated volume: EUR 30,925.00						

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Marianne Voigt	Member of the Supervisory Board	Buy	XETRA	May 07, 2018; UTC + 2	12.51	736.11
Marianne Voigt	Member of the Supervisory Board	Buy	XETRA	May 07, 2018; UTC + 2	12.52	38,048.28
Aggregated information for the transactions by Ms. Voigt on May 07, 2018: Average weighted share price: EUR 12.5198; aggregated volume: EUR 38,811.3900						

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Stefanie Frensch	Member of the Supervisory Board	Buy	XETRA	May 25, 2018; UTC + 2	12.62	29,909.40
Aggregated information for the transaction by Ms. Frensch on May 25, 2018: Average weighted share price: EUR 12.6200; aggregated volume: EUR 29,909.4000						

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Alexander Dexne	CFO	Buy	XETRA	Aug 22, 2018; UTC + 2	13.16	18,173.96
Alexander Dexne	CFO	Buy	XETRA	Aug 22, 2018; UTC + 2	13.15	34,439.85
Aggregated information for the transactions by Mr. Dexne on August 22, 2018: Average weighted share price: EUR 13.1535; aggregated volume: EUR 52,613.81						

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume in EUR
Dr. Bernhard Düttmann	Member of the Supervisory Board	Buy	XETRA	Sep 20, 2018; UTC + 2	12.85	12,850.00
Aggregated information for the transaction by Dr. Düttmann on Sept. 20, 2018: Average weighted share price: EUR 12.85; aggregated volume: EUR 12,850.00						

### 17.3 Voting right notifications

Information according to Section 160 para. 1 No. 8 German Stock Corporation Act (AktG): The following table shows shareholdings in the Company that were in place on the balance sheet date of 2017, were communicated to us pursuant to Section 33 para. 1 WpHG (Section 21 para. 1 WpHG old version), and have been published pursuant to Section 40 para. 1 WpHG (Section 26 para. 1 WpHG old version). Moreover, shareholdings were considered that were in place until the date of the preparation of the financial statements, were communicated to us pursuant to Section 33 para. 1 WpHG (Section 21 para. 1 WpHG old version), and have been published pursuant to Section 40 para. 1 WpHG (Section 26 para. 1 WpHG old version). The Company did not receive any notifications pursuant to Section 20 para. 1 and 4 AktG or pursuant to Section 33 para. 2 WpHG (Section 21 para. 1a WpHG old version) during the reporting period.

No.	Shareholders, registered office	Voting rights (new) (%)	Date of change	Attribution of voting rights	Contains 3% or more of voting rights from
1	Prédica, Paris, France	3.0265	Apr 5, 2016	No	-
2	SAS Rue la Boétie, Paris, France	5.7691	Apr 12, 2016	Yes	Prédica
3	Government of Singapore, acting by and through the Ministry of Finance, Singapore	12.61	Apr 22, 2016	Yes	GIC Private Limited (4.71%) Euro Periwinkle Private Limited (7.90%)
4	GIC Private Limited, Singapore	12.61	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
5	GIC (Realty) Private Limited, Singapore	7.90	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
6	Europe Realty Holdings Pte Ltd, Singapore	7.90	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
7	Euro Periwinkle Private Limited, Singapore	7.90	Apr 22, 2016	No	-
8	BlackRock, Inc., Wilmington, DE, USA	3.59 <sup>1</sup>	Sep 21, 2018	Yes	-
9	BNP PARIBAS ASSET MANAGEMENT Holding S.A., Paris, France	2.99	Nov 06, 2018	Yes	n/a
10	Kairos International SICAV, Luxembourg	2.97	Nov 21, 2018	No	-
11	Julius Baer Group Ltd., Zurich, Switzerland	2.99	Nov 27, 2018	Yes	-
12	Brookfield Asset Management Inc., Toronto, Canada	3.01	Dec. 18, 2018	Yes	Brookfield Public Securities Group LLC (formerly: Brookfield Investment Management Inc.)

<sup>1)</sup> Contains 0.17 % financial instruments pursuant to Sec. 38 para. 1 No. 1 and No. 2 WpHG

### 18. DECLARATION OF COMPLIANCE PURSUANT TO AKTG SECTION 161

The Management Board and the Supervisory Board have submitted the declaration of compliance that is required by AktG Section 161 with respect to the recommendations of the German Corporate Governance Code as developed by a government commission. It is permanently available to the public on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)) and is included in the Group's declaration of corporate management according to HGB Section 315d.

## 19. AUDITORS' FEES

On May 16, 2017, the General Meeting elected Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Dammtorstrasse 12, Hamburg) as auditors of the separate and consolidated financial statements for the 2018 financial year. The fees totaled EUR 497 k in 2018. Of this, EUR 429 k was attributable to audit services, and EUR 68 k was attributable to non-audit services.

## 20. MANAGEMENT BOARD

During the financial year, the Company's members of the Management Board were:

<b>Olivier Elamine</b>	<b>Hamburg, Germany</b>	<b>CEO of the Company</b>
since June 20, 2018	COIMA RES S.p.A. SIIQ Urban Campus Group SAS	Non-Executive Director Member of the Advisory Board
<b>Alexander Dexne</b>	<b>Hamburg, Germany</b>	<b>CFO of the Company</b>
until July 2, 2018	Brack Capital Properties N.V.	Chairman of the Board

The attached remuneration report contains the details of the principles used to define the Management Board's and Supervisory Board's remuneration.

## 21. SUPERVISORY BOARD

Pursuant to the Company's Articles of Association (Section 9), the Supervisory Board consists of six members who are elected at the General Meeting of the shareholders.

During the 2017 financial year, the members of the Supervisory Board and their membership in supervisory boards of German companies or comparable German or foreign controlling committees of commercial enterprises were as follows:

<b>Dr. Johannes Conradi</b>	<b>Hamburg, Germany</b>	<b>Lawyer and Partner, Freshfields Bruckhaus Deringer LLP</b>
<b>Chairman</b>	Elphilharmonie und Laeiszhalde Betriebsgesellschaft mbH Hamburg Musik gGmbH	Member of the Advisory Board Member of the Supervisory Board
<b>Richard Mully</b>	<b>Cobham (Surrey), United Kingdom</b>	<b>Director, Starr Street Limited</b>
<b>Vice-Chairman</b>	Arlington Business Parks LLC Great Portland Estates plc Standard Life Aberdeen PLC St Modwen Properties PLC TPG Europe LLC	Director Non-Executive Director Director Director Senior Advisor
until March 21, 2018		

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<b>Dr. Bernhard Düttmann</b>	<b>Meerbusch, Germany</b>	<b>Executive consultant</b>
since May 9, 2018	CECONOMY AG Vossloh AG	Member of the Supervisory Board Member of the Supervisory Board
<b>Stefanie Frensch</b>	<b>Berlin, Germany</b>	<b>Managing Director, HOWOGE Wohnungsbauhaus mbH</b>
until November 21, 2018	BBU Verband Berlin-Brandenburgi- scher Wohnungsunternehmen e.V.	Chairman of the audit committee
<b>Benoît Hérault</b>	<b>Uzès, France</b>	<b>Managing Director, Chambres de l'Artémise S.à r.l</b>
from March 2, 2018 un- til October 29, 2018	Marie Birzard Wine & Spirits SA Marie Birzard Wine & Spirits SA Westbrock Partners	Chairman of the Board CEO Senior Advisor for France
<b>Marianne Voigt</b>	<b>Berlin, Germany</b>	<b>Managing Director, bettermarks GmbH</b>
since October 1, 2018	BDO AG Wirtschaftsprüfungsgesell- schaft DISQ Deutsches Institut für Service- Qualität GmbH & Co. KG	Member of the Supervisory Board Member of the Advisory Board

Hamburg, February 21, 2019

**alstria office REIT-AG**

The Management Board

<b>Olivier Elamine</b>	<b>Alexander Dexne</b>
CEO	CFO

## RESPONSIBILITY STATEMENT

To the best of our knowledge we confirm that, in accordance with the applicable reporting principles, the consolidated financial statements 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report 2018 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, February 21, 2019

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**

CEO

**Alexander Dexne**

CFO

## INDEPENDENT AUDITOR'S REPORT

To alstria office REIT-AG, Hamburg

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

#### Opinions

We have audited the consolidated financial statements of alstria office REIT-AG, Hamburg and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of alstria office REIT-AG for the financial year from January 1, 2018 to December 31, 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from January 1, 2018 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the group management report.

#### Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for

Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

#### **Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

#### **Valuation of Investment Property**

For information on the valuation of Investment Property, please see the comments in the notes to the consolidated financial statements ('accounting policies' section) and the group management report.

#### **THE FINANCIAL STATEMENT RISK**

In the consolidated statement of financial position of alstria office REIT-AG as of December 31, 2018, the total value of investment properties amounted to EUR 3.9 bn. The investment property is measured at fair value. For 2018, a net gain of EUR 0.4 bn resulting from the fair value adjustment was recognised in the consolidated income statement.

The measurement of investment property at market value is carried out by independent valuation appraisers using a capitalised earnings valuation model ("hardcore and top slice"). The valuation date was December 31, 2018.

The fair values were determined by two accredited, external and independent valuation appraisers (Colliers International UK LLP, London, and Savills Advisory Services GmbH & Co. KG, Frankfurt am Main).

Besides information on the investment property, numerous assumptions are included in the measurement, which are subject to considerable estimation uncertainties and judgments. Even minor changes in the assumptions relevant to measurement may have a material effect on the resulting fair value. The key valuation assumptions used to measure the investment property as of the measurement date are market rents, vacancy periods and the capitalization rates.

There is a risk for the financial statements that, due to inaccurate or incomplete data provided by alstria office, the measurement of the investment property by the external experts is not appropriate. Estimation uncertainties and the incorrect exercise of judgment in relation to the relevant measurement parameters can also lead to inaccurate measurement results.

In addition, there is the risk for the financial statements that the disclosures on property held for investment required in the notes pursuant to IAS 40 and IFRS 13 are incomplete and inadequate.

#### OUR AUDIT APPROACH

Our audit procedures particularly include assessing the appropriateness of the assumptions and results of the external valuation appraisers as well as the accuracy and completeness of the data used concerning the real estate portfolios.

We included our KPMG valuation specialists in the audit.

We assessed the internal control system used to assess the fair values determined by the external appraisers and tested the implemented controls. We verified the qualifications and objectivity of the external appraisers commissioned by alstria office REIT-AG to assess the investment property and evaluated the valuation logic applied in their expert appraisals in terms of compliance with IAS 40 in conjunction with IFRS 13.

We assessed the appropriateness of the selected assumptions for measurement using a risk-based selection of real estate. In particular, we assessed the assumptions made to determine the real estate-specific market rents, vacancy periods and capitalization rates and reviewed these assumptions for appropriateness, taking into account the type and location of the real estate. Furthermore, in isolated cases, we carried out some on-site inspections to verify the respective property's condition.

We previously verified the appropriateness and functionality of the controls implemented in relation to the master data relevant to measurement.

Furthermore, as part of our substantive audit procedures, we assessed whether the data provided to the external experts was complete and correct and, thus, if it allowed the experts an appropriate basis for making an assessment.

We also assessed the completeness and adequacy of disclosures on investment property required in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13.

#### OUR OBSERVATIONS

The data used to assess the investment real estate is appropriate. We have no reservations, neither with the qualifications and objectivity of the external experts commissioned by alstria office to assess the investment property, nor with the result of these experts.

The disclosures on investment property in the notes to the consolidated financial statements pursuant to IAS 40 and IFRS 13 are complete and appropriate.

## Other Information

Management is responsible for the other information. The other information comprises all remaining parts of the Annual Report, with the exception of the audited consolidated financial statements and group management report, as well as the declaration of the executive directors for the compliance with the requirements of Section 11 to 15 REIT Act (REIT-Gesetz) and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19 (3) and Section 19a REIT Act and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on April 26, 2018. We were engaged by the supervisory board on April 26, 2018. We have been the group auditor of alstria office REIT-AG for the first time in financial year 2018.

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

### GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is René Drotleff.

Berlin, February 21, 2019

KPMG AG

Wirtschaftsprüfungsgesellschaft  
[Original German version signed by:]

Schmidt  
Wirtschaftsprüfer  
[German Public Auditor]

Drotleff  
Wirtschaftsprüfer  
[German Public Auditor]

## CORPORATE GOVERNANCE

### REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In this report, we present an overview of the supervision and advising activities of the Supervisory Board to monitor the Company's management. Furthermore, we present the main topics discussed by the plenary Supervisory Board and its committees, in addition to the audit of the annual and consolidated financial statements as well as the Company's corporate governance during the reporting period.

#### MAIN POINTS OF DISCUSSION

The main points of discussion for the Supervisory Board and its committees during the 2018 financial year were the financial and profit situation, the capital increase of 10% by way of an accelerated book building procedure from authorized capital against contribution in cash as well as bigger asset transactions. We have also intensively examined the strategic position and direction of the Company with the support of external advisers. Based on the Management Board's reports, we have discussed in detail the Company's performance as well as decisions and operations, which have been important to the Company.

#### SUPERVISION AND ADVISING OF THE COMPANY'S MANAGEMENT BOARD

During the 2018 reporting period, we performed the duties required by the statutory provisions and the Company's Articles of Association. We advised and supervised the Company's Management Board and its conduct of business. Moreover, we were intensively involved in decisions of material importance to the Company.

During the meetings of the Supervisory Board and its committees, the Management Board provided us with regular, prompt and detailed reports on the development of the business and the financial situation of the Company. Furthermore, we were informed about issues concerning the Company's planning, important business events and current risks, risk management and the Company's compliance. The Management and Supervisory Boards cooperated to determine the strategic direction of the Company. Between meetings, the Management Board further informed the Supervisory Board of important events by oral and written reports. The Chairman of the Supervisory Board met regularly with the Management Board to exchange information and deliberate on matters concerning the Company's business strategy, planning, business development, current risks, risk management and compliance.

Management Board and Supervisory Board have discussed in detail transactions requiring approval. After careful examination and consultation, the Supervisory Board voted on all matters brought to its attention as required by law, the Articles of Association or rules of procedure. This also included the Company's budget planning.

## MEETINGS OF THE SUPERVISORY BOARD

In the 2018 financial year, the Supervisory Board held four ordinary and three extraordinary meetings. The presence of the members in the meetings of the Supervisory Board averaged 98%. Thus, all members of the Supervisory Board attended a minimum of at least half of the meetings. Additionally, we passed written resolutions on five issues based on detailed documents. In 2019, the Supervisory Board met for two additional meetings and passed one written resolution prior to the finalization of this report.

In the ordinary meetings, the Supervisory Board and the Management Board discussed the situation and development of the Company as well as its business performance, market situation and financial results (quarterly interim statements and half-year financial reports, financial statements and consolidated financial statements). The chairmen of the committees reported on the activities of the committees.

In an extraordinary meeting in January 2018, the Supervisory Board discussed the general strategic direction and Corporate Governance of the Company with the Management Board and external advisors. The Supervisory Board passed a resolution on the formation of a special committee on the capital increase and authorized it to grant all necessary approvals and make all other declarations in connection with the launch of a capital increase against contribution in cash in the amount of 10% of the share capital by use of the Authorized Capital 2017 (Sec. 5 para. 3, para. 4 and para. 4a of the Articles of Association). In February and March 2018, the Supervisory Board decided on the Corporate Governance Statement jointly made with the Management Board and on the annual compliance statement regarding the recommendations by the German Corporate Governance Code, both by way of a written circular resolution.

During its financial meeting in March 2018, the Supervisory Board addressed the consolidated financial statements, the financial statements as of December 31, 2017 and the management reports, and then discussed these with the auditors. The Supervisory Board approved the financial statements of alstria office REIT-AG and the consolidated financial statements as of December 31, 2017 and confirmed the Management Board's proposal regarding the appropriation of profits for the 2017 financial year. The Supervisory Board also passed a resolution on its report to the Annual General Meeting for the 2017 financial year, discussed the agenda and proposals for resolution for the Annual General Meeting of the Company for the 2017 financial year with the Management Board, and resolved on the variable management board remuneration. Based on a vertical remuneration comparison and the recommendations of the nomination and remuneration committee, the Supervisory Board also discussed and decided on the amount of the long-term variable remuneration for the members of the Management Board for the 2014 financial year and on the short-term variable remuneration for the 2017 financial year . It thereby considered the board members' individual performances and also discussed the long-term parameters of the variable remuneration for the members of the Management Board for the 2018 financial year. In April 2018, the Supervisory Board decided by way of written

circular resolution on the recommendations for resolution to the Annual General Meeting of the Company.

In its ordinary meeting in April 2018, the Supervisory Board deliberated with the Management Board on real estate disposals and acquisitions and leases. In two extraordinary meetings in April and June 2018, the Supervisory Board discussed the strategic position and direction of the Company with the Management Board and external advisors. The Chairman reported on a road show, where he and the Vice-Chairman of the Supervisory Board had met investors of the Company. In June 2018, the Supervisory Board resolved on the editorial amendments to the Company's Articles of Association relating to the capital increases from conditional capital by way of written circular resolution. In connection with the conversion of convertible bonds issued by the Company, a total of 7,987,972 new shares were issued to investors, and in connection with the Company's employee participation program, a total of 143,750 new shares were issued to employees of the Company.

In the ordinary meeting in September 2018, the Management and Supervisory Boards deliberated on real estate acquisitions and disposals as well as on leasing projects. The Management Board reported on ongoing refinancing activities and the Supervisory Board discussed corporate governance issues as well as the positive results from the review of the composition and efficiency of the Supervisory Board's work, which the Supervisory Board members had performed by means of questionnaires in summer 2018.

In its ordinary meeting in December 2018, the Supervisory and Management Boards discussed the Company and budget planning for the 2019 financial year and approved these. The Supervisory Board advised the Management Board on executed and planned real estate acquisitions and disposals as well as on development projects planned for 2019. The Supervisory Board deliberated on personnel matters regarding the Management Board and Supervisory Board and, based on the recommendation of its nomination and remuneration committee, resolved on proposing to the Annual General Meeting Mr. Richard Mully and Mr. Benoît Héault for another office term as members of the Supervisory Board.

In a meeting in January 2019, the Supervisory and Management Boards discussed the market outlook with an external advisor. The Management Board and Supervisory Board discussed the strategy for the Company as well as bigger leasing projects, and the Supervisory Board resolved on leases that require approval as well as on a small amendment to the rules of procedure. In February 2019, the Supervisory Board resolved by way of written circular resolution on the Corporate Governance Statement and the annual compliance statement regarding the recommendations of the German Corporate Governance Code. In its financials meeting in February 2019, the Supervisory Board discussed the consolidated financial statements and financial statements for the year ending on December 31, 2018. It further reviewed the Management Board's recommendation for profit appropriation. The Supervisory Board passed a resolution on its report for the Annual General Meeting for the 2018 financial year. Management Board and Supervisory Board discussed the agenda and proposals for resolution to the annual General Meeting of the Company for the 2018 financial year. The Supervisory Board also discussed the variable remuneration for the members of the Management Board.

## COMMITTEES OF THE SUPERVISORY BOARD

According to the Company's Articles of Association, the Supervisory Board has six members. It has formed four permanent committees to support it in its work, each of which are composed of at least three members. The composition of all committees is described in the Company's Corporate Governance Statement on pages 146 to 156 of the annual report.

In some cases, the committees prepare the resolutions that the Supervisory Board will pass by making proposals. In some cases, the committees have been given decision-making powers, to the extent permitted by law. During the ordinary Supervisory Board's meetings, the committee's chairmen report on their committees' work. In the 2018 financial year, the Supervisory Board's committees were mainly concerned with the topics detailed below.

The audit committee held five meetings in the 2018 financial year. All of them were attended by the Chief Financial Officer. In the course of auditing the accounts of the Company in March 2018, the audit committee reviewed the consolidated financial statements and financial statements as of December 31, 2017 as well as the management reports. It discussed the documents with the independent auditors and carried out a preliminary examination of the annual and consolidated financial statements and the Management Board's recommendation for the appropriation of profit. As a result, the committee submitted corresponding proposals for resolution to the Supervisory Board. Moreover, the audit committee approved non-audit services of the auditors and resolved in this matter by written circular resolution. The audit committee dealt with the half-year financial report as of June 30, 2018 and discussed it with the auditors and the Management Board prior to its publication. The Company's risk situation was addressed regularly. Further topics included a recommendation to the Supervisory Board regarding the proposed resolution of the Supervisory Board for the choice of the auditors for the 2018 financial year Annual General Meeting, the auditors' independence and any additional services to be performed by them. KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, was appointed as auditor. The audit committee decided on the engagement agreement and dealt with the Company's accounting, accounting process, risk management system and key risks. Moreover, the effectiveness of the Company's internal controlling, audit and compliance systems were discussed. Furthermore, the audit committee discussed the costs of development projects as well as the results of the Company's internal audit for the 2018 financial year, and the audit schedule for the internal audit for the coming years.

The nomination and remuneration committee met three times during the 2018 financial year. The committee discussed the amount of variable remuneration for the members of the Management Board. In light of this discussion, each Management Board member's individual performance was discussed, providing the Supervisory Board with corresponding resolution proposals. Moreover, the nomination and remuneration committee dealt with the status of implementation of the share ownership guidelines for the members of the Management Board and the self-commitment of the members of the Supervisory Board on acquiring shares of the Company, and the committee gave its approval for ancillary advisory activities of one member of the Management Board. The nomination

and remuneration committee discussed the composition of the Management Board, which has been the same for years. As the office terms of two Supervisory Board members will expire in the 2019 financial year, the committee also discussed the succession planning for the Supervisory Board and submitted a proposal to the Supervisory Board for a resolution to the Annual General Meeting with regard to the re-election of both members of the Supervisory Board.

In the 2018 financial year, the finance and investment committee deliberated with the Management Board on the financing strategy of alstria office REIT-AG and real estate transactions in three meetings. The committee approved acquisition and disposals of a real estate portfolio executed in the 2018 financial year as well as leases. Finally, by way of written circular resolution, the finance and investment committee agreed on the refinancing of a bank loan, which took place as part of executing the financing strategy.

In the 2018 financial year, the corporate social responsibility committee convened in two meetings and discussed questions of Corporate Social Responsibility in the real estate sector with the Management Board and external advisors. The committee discussed the activities of the Company in the field of sustainability with the Management Board, reviewing both their impact on the Company's business activities as well as the corresponding perception of other market participants and rating agencies. Moreover, the committee and the Management Board examined possible future fields of activity for the Company in the area corporate social responsibility.

The special committee dealing with the capital increase, established in January 2018, held two meetings in January 2018. Pursuant to its authorization, it approved the increase of the Company's share capital by up to 10% of the share capital against cash contributions by utilizing the Company's Authorized Capital 2017 and excluding shareholders' subscription rights.

#### **AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS**

KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the financial statements and management report of alstria office REIT-AG and its consolidated financial statements, including the management report of the Group for the financial year from January 1 to December 31, 2018. All reports were prepared by the Management Board and each issued with unqualified audit statements.

Immediately after their preparation, the members of the Supervisory Board were presented with the financial statements and management report of alstria office REIT-AG. Likewise, the consolidated financial statements, including the management report of the Group, the auditors' report and the Management Board's recommendation for the appropriation of the annual net profit, were presented. The Supervisory Board examined the documents provided by the Management Board in detail in both its audit committee and at a plenary meeting. In the meeting of the audit committee, the auditors presented the essential results of their audit (including the audit of the internal control and risk-management system) and were available to answer questions. The audit committee prepared the Supervisory Board's audit and focused particularly on the key audit matters described in the auditors' opinion, including the audit procedures implemented. The audit committee reported to the plenary

Supervisory Board in the presence of the auditors of the financial statements of alstria office REIT-AG and its consolidated financial statements. The auditors reported on the scope, focal points and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. The plenary meeting examined and discussed the annual financial statements of the Company and the consolidated financial statements as prepared by the Management Board, as well as the auditors' results. After the review conducted by the Supervisory Board, there were no objections to be raised. The Supervisory Board approved the financial statements of alstria office REIT-AG and its consolidated financial statements. The annual financial statements are thus endorsed. The Supervisory Board also shared the Management Board's recommendation for the appropriation of the profit as well as the adjustment of the proposal due to a changed number of shares.

### CORPORATE GOVERNANCE

In the reporting period, the Supervisory Board also discussed alstria office REIT-AG's compliance with the recommendations of the German Corporate Governance Code. The Management Board and the Supervisory Board last issued the annual declaration of compliance with the German Corporate Governance Code in accordance with Section 161 AktG in February 2019; the declaration was subsequently made permanently available to shareholders on the Company's website. In their declaration, the Management and Supervisory Boards explained that most of the recommendations of the German Corporate Governance Code have been, or will be, adopted. Furthermore, information on the recommendations that have not been, or will not be, followed, is presented together with the reasons for making these decisions.

The Supervisory Board reviewed its own composition and the status of implementation of the profile of skills and expertise with specific objectives for its composition and the diversity concept, which is published in the Company's Corporate Governance Report on pages 146 to 156 of the annual report. The composition of the Supervisory Board as of December 31, 2018 meets these objectives and the profile of skills and expertise is fulfilled. There were no personnel changes in the Supervisory Board in 2018. No conflicts of interest concerning members of the Supervisory Board or Management Board arose during the 2018 financial year.

The Supervisory Board would like to thank the Management Board and all employees for their high level of commitment and their successful work in the 2018 financial year.

Hamburg, February 2019

For the Supervisory Board

**Dr. Johannes Conradi**

Chairman of the Supervisory Board

## CORPORATE GOVERNANCE STATEMENT

In this declaration, the Management Board and the Supervisory Board report on the corporate governance of alstria office REIT-AG ('alstria') and the Group pursuant to Section 289f and 315d of the German Commercial Code ('HGB') as well as Section 3.10 of the German Corporate Governance Code ('Code').

### **DECLARATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE**

The suggestions and recommendations of the Government Commission, as appointed by the German Federal Ministry of Justice, contain internationally and nationally recognized standards for effective and responsible corporate management. The Company's declaration of compliance with the recommendations of the German Corporate Governance Code is published on the Company's website ([www.alstria.com](http://www.alstria.com)). After careful consideration, alstria has chosen not to comply with some of the Code's recommendations. These items and the reasons for the Company's nonconformity are set out in the declaration of compliance as issued by the Management Board and the Supervisory Board on February 12, 2019:

#### ***Declaration of compliance, dated February 12, 2019***

"Since the prior declaration of compliance, dated February 13, 2018, the Company has – apart from the exceptions stated below – complied with the recommendations of the 'Government Commission German Corporate Governance Code' in the version as amended on February 7, 2017. The Company intends to continue to comply with the recommendations of the Code as amended on February 7, 2017, to the same extent:

#### ***Deductible for D&O insurance for the Supervisory Board, Section 3.8 of the Code***

The D&O insurance for the alstria office REIT-AG Supervisory Board does not comprise a deductible. The Supervisory Board believes its members will carry out their duties responsibly irrespective of any such deductible.

#### ***Change of performance targets for elements of variable remuneration, Section 4.2.3 of the Code***

The short-term incentive remuneration element of the Management Board is mainly based on the achievement of a funds from operations per share (FFO per share) target. In the event that the achieved FFO per share in a financial year is positively and materially impacted by new acquisitions, the Supervisory Board adjusts the FFO per share target accordingly. In doing so, the Supervisory Board ensures the Management Board is not incentivized to enter into acquisitions by means of achieving personal short-term benefits. The impact of any acquisition on management remuneration is solely linked to multi-year remuneration elements, therefore aligning the interest of the Management Board with those of the Company and its shareholders. Vice versa, the Supervisory Board adapts the FFO per share target to disposals. Furthermore, the FFO per share target will in future be adjusted to changes in the Company's share capital carried out in the relevant financial year.

***Determination of a level of benefits for the private pension plan, Section 4.2.3 of the Code***

As the Company has opted for a defined contribution model for the private pension plan of the Management Board members for reasons of transparency and risk management, the Supervisory Board has not fixed a level of benefits for the private pension plan of the Management Board members. The Supervisory Board believes it is in the best interest of the Company to have a defined contribution model rather than a defined benefit model, as the defined contribution does not create any unforeseen future liability for the Company.

***Discussion of the financial reports by the Supervisory Board or its audit committee and the Management Board prior to their publication, Section 7.1.2 of the Code***

The quarterly interim statements are made available to the Supervisory Board prior to their publication and are discussed with the Supervisory Board in detail soon after publication. In the event of considerable differences to the budget or business plan as approved by the Supervisory Board, the Supervisory Board is given the opportunity to discuss the figures with the Management Board before they are published. Half-year financial reports are discussed with the audit committee of the Supervisory Board prior to publication. The Management Board and Supervisory Board consider this approach appropriate and adequate.”

**CORPORATE MANAGEMENT PRACTICES**

To achieve a value-oriented and trust-building corporate management, alstria applies a corporate management practice to an extent beyond what is legally required.

**Corporate Governance**

The Management Board and the Supervisory Board of alstria are aware of their responsibilities concerning the corporate governance of alstria regarding the Company's shareholders, employees, tenants and business partners. Good corporate governance is the basis for our decision-making and supervising processes. It stands for a responsible, value and long-term success-driven governance and supervision of the Company, a target-orientated and efficient cooperation between the Management Board and the Supervisory Board, respect for the interests of our shareholders and employees, transparency and responsibility in all entrepreneurial decisions as well as an appropriate handling of risks.

alstria has already implemented many parts of the German Corporate Governance Code (as last amended February 7, 2017) to an extent beyond what is legally required. With the few exceptions named and reasoned in the declaration of compliance, alstria office REIT-AG complied and complies with the recommendations of the German Corporate Governance Code. Beyond that, alstria also complied and complies with the majority of suggestions of the German Corporate Governance Code.

alstria has appointed a corporate governance officer within the Company who will report any changes of the Code to the Management Board and the Supervisory Board at least once per year and whenever necessary. In this way, alstria ensures consistent compliance with these principles.

### **Integrity and compliance**

Conducting business with integrity is one of alstria's most important principles. The entire Company shares the understanding that the trust of alstria's shareholders, tenants, employees and business partners crucially depends on the behavior of each employee. The Management Board of the Company has set up a compliance organization to ensure that the legal provisions and internal Company guidelines are complied with and, moreover, that sets standards for treating business partners, competitors and employees fairly.

A code of conduct lists guidelines for behavior and provides orientation to resolve conflicts (e. g., conflicts of interest), thereby serving as a model for correct behavior for all Company employees. The code of conduct is published on the Company's website.

The compliance officer is responsible for communicating these values by answering questions on the implementation of the code of conduct and by offering in-house training for all employees. Compliance is monitored by colleagues, supervisors and the compliance officer, as well as via regular investigation by auditors. alstria has also set up a telephone hotline at an external law firm which employees can use anonymously to report any violations of the code of conduct or the Company's internal guidelines. Furthermore, the Management Board regularly discusses Company compliance with the Supervisory Board's audit committee. Violations of the code of conduct will not be tolerated; they will be fully investigated, and the violators will be punished. This can include anything from disciplinary measures to dismissal, a claim for damages or even prosecution.

Integrity is also an essential condition for building trusting partnerships and cooperations with our business partners. For this reason, alstria has introduced a code of conduct for its service providers and craftsmen, which defines fundamental legal and ethical requirements. The code is published on the Company's website and defines the expectations of the Company concerning integrity and compliance behavior from business partners.

### **Communication and transparency**

A transparent corporate governance and good communication with the shareholders and the public contributes to strengthening investor and public trust in alstria's work.

### **Relationship to the shareholders**

alstria respects the rights of its shareholders and makes best efforts to guarantee those rights are exercised to the extent stipulated by the law or its bylaws. In particular, these include the right to freely purchase and sell shares, to have an appropriate level of access to information, to an adequate number of voting rights per share (one share, one vote) and to participate in our Annual General Meeting. Shareholders have the option of exercising their voting rights personally, via an authorized representative present at the Annual General Meeting or by sending voting instructions to their proxies. The invitation to the Annual General Meeting includes an explanation of how voting instructions can be issued. It is possible to send invitations and documents for General Meetings to the shareholders electronically upon request. The invitation and the documents are to be made

available for viewing prior to the upcoming Annual General Meetings pursuant to the legal provisions and will be published on the Company's website with additional documents pursuant to Section 124a of the German Stock Corporation Act (*Aktiengesetz*, AktG) and the agenda. The results of the votes will likewise be published on the Company's website following the Annual General Meeting.

#### ***Communication with the public***

When sharing information with people outside the Company, the Management Board follows the principles of transparency, promptness, openness and clarity, and a policy of equal treatment of its shareholders. alstria informs its shareholders and the interested public about the Company's situation and significant business events in particular through financial reports, analyst and press conferences, press and ad-hoc announcements and the Annual General Meeting. The alstria website includes information on the Company and its shares and other financial instruments, share price tracking and the Managers' Transactions Disclosure pursuant to Article 19 of the Market Abuse Regulation (Regulation (EC) No. 596/2014 of the European Parliament and the Council) (Directors' Dealings). Moreover, alstria's financial reports and website include a financial calendar that indicates all dates of importance to shareholders. The announcements and pieces of information are additionally published in English.

#### ***Financial reporting***

alstria regularly informs shareholders and third parties by publishing its consolidated and half-year financial statements, as well as quarterly interim statements, during each financial year. For the Group's accounting, the International Financial Reporting Standards (IFRS) as applied in the European Union, are relevant. For legal reasons (calculating dividends, creditor protection), financial statements for alstria office REIT-AG also are prepared in accordance with the HGB.

The Annual General Meeting appoints the independent auditor for alstria office REIT-AG and the Group as well as for the audit review of the interim financial reports. Following the election of the Annual General Meeting, the audit committee of the Supervisory Board appoints an external auditing firm to audit the financial statements and negotiates the respective auditing fees. The auditors participate in the plenary sessions of the audit committee and the Supervisory Board to advise on the consolidated financial statements and the financial statements of alstria office REIT-AG as well as in the meeting of the audit committee regarding the deliberations on the half-year financial report and to present the respective key findings of the audit. In accordance with the provisions of the auditor regulation (regulation (EC) No. 537/2014 of the European Parliament and Council) the audit committee provided the Supervisory Board with two recommendations for the auditor for the financial year 2018 with one reasoned preference for KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg. On the basis of the respective proposal of the Supervisory Board, the Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the annual and half-year financial statements of alstria office REIT-AG and of the Group for the 2018 financial year and for further interim financial

reports until the next ordinary general meeting in 2019. Haiko Schmidt and René Drotleff are the professionally qualified auditors in charge of the financial statements of alstria office REIT-AG and the Group.

### Sustainability

alstria's sustainability approach is based on a three-pillar model, taking the impact of business on the following pillars into account: economy, environment and social issues. As a commercial organization, alstria's main objective is to optimize its long-term sustainable value. It strives to generate the best yield possible on its equity over time. alstria's approach to sustainability does not solely focus on environmental matters, but it considers the economic and social impacts of its actions as well. The Company weighs the risk-benefit ratio of the three areas before making any decisions and adapts its actions to what it feels is the most viable course of action in each case. The result of this approach is that alstria might not always make decisions that maximize its short-term benefits, striving to always take the path that will yield the best long-term prospects for the Company.

alstria's sustainability approach, its achievements in its three defined areas of sustainability and the Company's related future targets are described in detail in the Company's yearly sustainability report. The report is available on the Company's website.

### MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and the Supervisory Board cooperate closely and faithfully in the interest of the Company. The Chairman of the Supervisory Board has regular contact with the Management Board and deliberates with it questions on strategy, planning, development of business, risk situation, risk management and compliance of the Company. On notable events, which are of substantial meaning for the evaluation of the situation and development as well as the governance, the Chairman of the Supervisory Board shall be informed without delay by the Management Board.

#### Management Board

The Management Board has two members: Olivier Elamine as Chief Executive Officer and Alexander Dexne as Chief Financial Officer.

The Management Board is responsible for running alstria in the interest of the Company with the aim of sustainably increasing the Company's value. It sets the business goals and – in conjunction with the Supervisory Board – the strategic direction of the Company. The tasks of the Management Board, the allocation of responsibilities between the individual members of the Management Board as well as the reporting and information duties towards the Supervisory Board are stipulated in the rules of procedure for the Management Board.

The members of the Management Board are appointed by the Supervisory Board, which monitors and advises the Management Board on management issues. The Management Board involves the Supervisory Board in all decisions of fundamental importance to the Company. The rules of procedure for the Supervisory Board stipulate that certain, significant business transactions by the Company are

subject to the approval of the Supervisory Board. For example, the acquisition or disposal of real estate property for a consideration of more than EUR 30 million, entering into financing agreements with a volume of more than EUR 30 million, entering or prematurely terminating lease contracts with an annual consideration of more than EUR 2 million, or investing in Company assets (modernization measures) with an annual total sum of more than EUR 2 million must be approved, if such investments have not already been included in the budget as approved by the Supervisory Board.

The members of the Management Board are obligated to the Company's interest. The members of the Management Board must immediately disclose any conflicts of interest to the Supervisory Board. Major business transactions between the Company and members of the Management Board, or with any persons or companies in close association with them, require the approval of the Supervisory Board. All such business transactions must be concluded at customary commercial conditions. The members of the Management Board require the approval of the Supervisory Board to conduct secondary activities, particularly memberships in the supervisory boards of companies not affiliated with the Group. The members of alstria's Management Board had no conflicts of interest in the reporting year. There were no contracts regarding such business transactions between the Company and the Management Board members, persons or companies in close association with them during the reporting period. The CEO serves on supervisory boards of companies outside of the Group with approval of the Supervisory Board of the Company. A list of the memberships of the Management Board members in supervisory boards of listed companies or in supervisory boards of companies with comparable requirements pursuant to Section 285 No. 10 HGB can be found on pages 130 of the Company's financial report.

### **Supervisory Board**

In accordance with the Articles of Association, the Supervisory Board is composed of six members. No former Management Board members sit on the Supervisory Board. The Supervisory Board is composed of members who have the necessary knowledge, competence and professional experience to properly carry out their duties.

There were no changes with respect to the composition of the Supervisory Board in financial year 2018; the Supervisory Board is composed of the following members:

Member	Profession	Appointed until <sup>1)</sup>
Dr Johannes Conradi (Chairman)	Lawyer and partner, Freshfields Bruckhaus Deringer LLP	2020
Richard Mully (Vice Chairman)	Director, Starr Street Limited	2019
Dr Bernhard Düttmann	Independent business consultant	2021
Stefanie Frensch	Managing Director, HOWOGE Wohnungsbaugesellschaft mbH	2021
Benoît Héault	Managing Director, Chambres de l'Artémise S.à r.l.	2019
Marianne Voigt	Managing Director, bettermarks GmbH	2020

<sup>1)</sup> Until the close of the Annual General Meeting

The Supervisory Board considers all its members to be independent.

On the website of the Company (Company > Supervisory Board), a curriculum vitae for each member of the Supervisory Board as well as an overview of other material activities besides the Supervisory Board mandate can be found. A list of all memberships of the Supervisory Board members in supervisory or similar controlling bodies in companies external to the Group pursuant to Section 285 No. 10 of the HGB is presented on pages 130 to 131 of the annual report.

In its report to the Annual General Meeting, the Supervisory Board reports on its activities undertaken in financial year 2018. The report is presented on pages 140 to 145 of the annual report.

### **Supervisory Board committees**

The Supervisory Board has formed four standing committees: an audit committee, a finance and investment committee, a nomination and remuneration committee and a solemnly advising corporate social responsibility committee. Each committee with resolution-making competence has its own rules of procedure to specify its concerns, tasks and resolution-making competence.

#### ***Audit committee***

The audit committee monitors the Company's accounting and the accounting process, risk management, internal control, internal audit and compliance. Moreover, the audit committee deals with the selection of the auditors, the necessary independence of the auditor and the respective engagement, the key audit areas, the auditors' compensation as well as services additionally rendered by the auditor. The audit committee comprised Marianne Voigt as Chair as well as Dr. Bernhard Düttmann and Benoît Héault as further members throughout the full 2018 financial year.

#### ***Finance and investment committee***

The finance and investment committee discusses the Company's financing strategy and approves the acquisition or disposal of real estate property or other assets worth between EUR 30 million and EUR 100 million, as well as financing agreements with a financing volume between EUR 30 million and EUR 100 million. Transactions of a value greater are to be presented to the entire Supervisory Board for approval. The finance and investment committee, furthermore, approves the conclusion or early termination of lease agreements with third parties with a total annual consideration of more than EUR 2 million, as well as contracts with Supervisory Board members, according to Section 114 of the German Stock Corporation Act (*Aktiengesetz*, AktG). The finance and investment committee comprised Richard Mully as Chair as well as Stefanie Frensch and Benoît Héault as further members throughout the full 2018 financial year.

#### ***Nomination and remuneration committee***

The nomination and remuneration committee prepares resolutions for the entire Supervisory Board for the appointment and dismissal of members of the Management Board, for the Management Board's compensation system and for the total remuneration of individual members of the Management Board. Furthermore, it deals with the resolution of, or amendments to, the rules of procedure for the Management Board, as well as the approval of certain other activities and primary contracts of members of the Management Board. Apart from the amount of compensation, the nomination and

remuneration committee decides on the conclusion, amendment, extension and termination of contracts with Management Board members and on the content of such contracts. Finally, the committee prepares the resolutions for the Supervisory Board regarding the proposal of the appointment of suitable Supervisory Board members at the Annual General Meetings. In the financial year 2018, the nomination and remuneration committee comprised Dr. Johannes Conradi as Chair as well as Stefanie Frensch and Richard Mully as further members.

***Corporate social responsibility committee***

The corporate social responsibility committee will deal with topics of corporate social responsibility and real estate innovations in the future. In the financial year 2018, the committee was composed of Dr. Johannes Conradi as Chair as well as Richard Mully and Marianne Voigt as further members.

***Special committees***

Additionally, in January 2018 the Supervisory Board established a special committee capital increase, which was composed of Richard Mully as Chair as well as Dr. Johannes Conradi, Stefanie Frensch and Benoît Hérault as further members. The special committee capital increase was authorized to grant all necessary approvals and make all other declarations required in connection with the execution of a capital increase from the Authorized Capital 2017 (Section 5 paragraph 3, 4 and 4a of the Articles of Association) against cash contributions in the amount of up to ten percent of the Company's share capital.

The Supervisory Board reports on the activities of the committees of the Supervisory Board during the 2018 financial year in its report to the Annual General Meeting on pages 140 to 145 of the annual report.

**DETERMINATION TO PROMOTE WOMEN'S PARTICIPATION IN LEADING POSITIONS PURSUANT TO SECTION 76 PARA. 4 AND SECTION 111 PARA. 5 AKTG**

Employees and their development in the Company are of central importance for the Company to achieve sustainable success. The Management Board pursues diversity in filling its management positions and aims to adequately consider women for these positions. The Management Board determined that the number of females in the first management level below the Management Board should be no less than 30%. This target quota has been achieved with 41.7 % as of December 31, 2018 and applies until December 31, 2021. As there is no additional management level with decision-making competence and budget responsibility, a target quota for women's participation in the second management level did not need to be determined.

The Supervisory Board determined a target quota of at least 30 % for the Supervisory Board. This quota has been achieved with 33.33 % and applies until December 31, 2021.

For the participation of women in the Management Board, the Supervisory Board determined a quota of 0%. This quota has been achieved and applies until December 31, 2021. Both Management Board

members are appointed until December 31, 2022. In 2019, the supervisory board will establish a diversity concept for the Management Board.

## PROFILE OF SKILLS AND EXPERTISE WITH OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND DIVERSITY CONCEPTION

The aim of the alstria office REIT-AG's Supervisory Board is to have members who are equipped with the necessary skills and expertise to properly advise and control the Management Board. Therefore, the Supervisory Board developed, with due consideration of the specific alstria situation, the following profile of skills and expertise and diversity concept pursuant to Section 289f HGB and Section 5.4.1 of the German Corporate Governance Code, which specifies concrete objectives for the composition of the Supervisory Board, which are to be considered in its proposals to the shareholders in the General Meeting regarding new elections to the Supervisory Board:

### Requirements for the single Supervisory Board members

#### *General requirement profile*

- Managerial or operational experience;
- Willingness and ability to ensure adequate content-related commitment;
- Discretion and integrity;
- Capacity for interaction and teamwork;
- Leadership skills and persuasive power;
- Willingness to participate in regular and independent advanced training;
- Compliance with the limitation of the numbers of memberships as recommended by the German Corporate Governance Code (see Section 5.4.5 German Corporate Governance Code).

#### *Availability*

Each member of the Supervisory Board must ensure that he or she has sufficient time to dedicate to the proper fulfillment of the Supervisory Board mandate (see also Section 5.4.1 German Corporate Governance Code). This means ensuring that the member

- can attend five ordinary Supervisory Board meetings per year, each of which requires adequate preparation work and wrap-up;
- has sufficient time for the audit of the annual and consolidated financial statements;
- can, in general, attend the Annual General Meeting of shareholders in person (see Section 15 paragraph 4 sentence 1 of the Articles of Association);
- depending on possible membership in one or more of the Supervisory Board committees, has extra time to participate in these committee meetings and do the necessary preparation and wrap-up for these meetings;
- can attend extraordinary meetings of the Supervisory Board or of a committee to deal with special matters, as and when required (also on short notice).

### ***Age limit***

Members of the Supervisory Board should not be older than 70 years of age as a general rule (see for the definition of an age limit Section 5.4.1 German Corporate Governance Code).

### ***Length of membership***

For each member, the membership in the Supervisory Board shall not exceed 20 years as a general rule (see for the definition of a maximum length of mandate Section 5.4.1 German Corporate Governance Code).

## **Requirements relating to the composition of the Supervisory Board plenum**

### ***Expertise***

- Viewed as a whole, the members must be familiar with the real estate sector (see Section 100 paragraph 5 second half-sentence of the German Stock Corporation Act).
- At least two members shall have expertise in the sectors of real estate transactions, asset management and letting, project development and real estate valuation.
- At least one independent member of the Supervisory Board shall have expertise in accounting or the audit of annual statements (see Section 100 paragraph 5 first half-sentence of the German Stock Corporation Act, Section 5.3.2 German Corporate Governance Code).
- At least one member shall have expertise in the sectors of legal, human resources management, corporate finance, IT/innovation/digitalization, corporate social responsibility and capital markets.

### ***Experience abroad***

At least two members of the Supervisory Board shall have acquired reasonable international experience.

### ***Diversity and participation of women***

The members of the Supervisory Board shall appoint new members, taking into account their backgrounds, professional experience and expertise, to provide the Supervisory Board with the most diverse sources of experience and expertise possible. Concerning the female representation in the Supervisory Board, a quota of at least 30% must be maintained.

### ***Independence and conflicts of interest***

At least four members of the Supervisory Board shall be independent, according to Section 5.4.2 of the German Corporate Governance Code, i. e. have no business or personal relationships, which could cause a substantial and not temporary conflict of interest, with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter.

At least three members of the Supervisory Board shall not have any consulting or representation duties with main tenants, lenders or other business partners of the Company (see for the disclosure of conflicts of interest Section 5.5.2 German Corporate Governance Code).

### **Current composition**

In September 2018, the Supervisory Board assessed the implementation of these targets and came to the conclusion that all targets named above are met. The profile of skills and expertise is fully met by the plenary body.

February 2019

**The Management Board**

**The Supervisory Board**

## REMUNERATION REPORT\*

### REMUNERATION OF THE MANAGEMENT BOARD MEMBERS

The remuneration system for the members of the Management Board is determined by the Supervisory Board and is reviewed regularly. The last adjustment to the remuneration system became effective January 1, 2018.

#### 1. REMUNERATION IN THE 2018 FINANCIAL YEAR

In the last financial year, the total target remuneration for the members of the Management Board amounted to EUR 2,237 k. The total amount paid to the Management Board in that financial year amounted to EUR 2,895 k (including payouts on multi-year remuneration elements). The correctness of the calculated payout amounts for the multi-year variable remuneration elements was confirmed by an independent remuneration expert. The remuneration of individual Management Board members is presented based on model tables pursuant to the German Corporate Governance Code, as amended on February 7, 2017.

The ‘Benefits granted’ table shows the fixed remuneration and the target values of the variable remuneration elements granted in the respective financial year as well as hypothetical minimum and maximum amounts for a future payout of the variable remuneration elements.

The ‘Benefits paid out’ table shows the fixed remuneration and the amounts paid out in the respective financial year as variable remuneration elements.

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\* This remuneration report forms an integral part of the audited Group Management Report and Notes to the annual financial statements.

### Benefits granted

in EUR k	Olivier Elamine				Alexander Dexne			
	CEO		CFO		CEO		CFO	
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
<b>Total amount of fixed compensation and ancillary benefits</b>	<b>447</b>	<b>455</b>	<b>455</b>	<b>455</b>	<b>381</b>	<b>383</b>	<b>383</b>	<b>383</b>
Fixed compensation <sup>1)</sup>	440	440	440	440	360	360	360	360
Ancillary benefits <sup>2)</sup>	7	15	15	15	21	23	23	23
<b>Total amount of one-year variable compensation</b>	<b>173</b>	<b>231</b>	<b>0</b>	<b>347</b>	<b>142</b>	<b>189</b>	<b>0</b>	<b>284</b>
STI 2017	173 <sup>3)</sup>	-	-	-	142 <sup>3)</sup>	-	-	-
STI 2018	-	231	0	347 <sup>4)</sup>	-	189	0	284 <sup>4)</sup>
<b>Total amount of multi-year variable compensation</b>	<b>498</b>	<b>440</b>	<b>0</b>	<b>1,100</b>	<b>407</b>	<b>360</b>	<b>0</b>	<b>900</b>
STI 2017 (3 years)	58 <sup>5)</sup>	-	-	-	47 <sup>5)</sup>	-	-	-
LTI 2017 (4 years)	440 <sup>6)</sup>	-	-	-	360 <sup>6)</sup>	-	-	-
LTI 2018 (4 years)	-	440 <sup>6)</sup>	0	1,100 <sup>7)</sup>	-	360 <sup>6)</sup>	0	900 <sup>7)</sup>
<b>Total amount of fixed and variable compensation</b>	<b>1,118</b>	<b>1,126</b>	<b>455</b>	<b>1,902</b>	<b>930</b>	<b>932</b>	<b>383</b>	<b>1,567</b>
Service costs <sup>8)</sup>	84	100	100	100	58	79	79	79
<b>Total</b>	<b>1,202</b>	<b>1,226</b>	<b>555</b>	<b>2,002</b>	<b>988</b>	<b>1,011</b>	<b>462</b>	<b>1,646</b>

1) Annual base salary according to service contracts.

2) Benefits related to company car.

3) 75 % of the STI target value.

4) Maximum attainable payout amount for the STI: target value STI x 1.5.

5) 25 % of the STI target value.

6) LTI target value for the respective financial year.

7) Maximum attainable payout for the LTI after the holding period of 4 years: target value LTI x 2.5. Payout is provided in alstria shares.

8) Benefits for insurance and pension plans.

### Benefits paid out

in EUR k	Olivier Elamine		Alexander Dexne	
	CEO		CFO	
	2017	2018	2017	2018
<b>Total amount of fixed compensation and ancillary benefits</b>	<b>447</b>	<b>455</b>	<b>381</b>	<b>383</b>
Fixed compensation <sup>1)</sup>	440	440	360	360
Ancillary benefits <sup>2)</sup>	7	15	21	23
<b>Total amount of one-year variable compensation</b>	<b>180</b>	<b>178</b>	<b>147</b>	<b>146</b>
STI 2016 <sup>3)</sup>	180	-	147	-
STI 2017 <sup>3)</sup>	-	178	-	146
<b>Total amount of multi-year variable compensation</b>	<b>822</b>	<b>855</b>	<b>673</b>	<b>699</b>
STI 2014 (3 years) <sup>4)</sup>	68	-	56	-
STI 2015 (3 years) <sup>4)</sup>	-	83	-	68
LTI 2013 (4 years) <sup>5)</sup>	754	-	617	-
LTI 2014 (4 years) <sup>5)</sup>	-	772	-	631
<b>Total amount of fixed and variable compensation</b>	<b>1,449</b>	<b>1,488</b>	<b>1,201</b>	<b>1,228</b>
Service cost <sup>6)</sup>	84	100	58	79
<b>Total</b>	<b>1,533</b>	<b>1,588</b>	<b>1,259</b>	<b>1,307</b>

1) Annual base salary according to service contracts.

2) Benefits related to company car.

3) Payout amount for 75 % of the STI after 1 year.

4) Payout amount for 25 % of the STI after 3 years.

5) Payout amount for LTI after holding period of 4 years.

6) Benefits for insurance and pension plans

## 2. REMUNERATION SYSTEM

In January 2017, the Supervisory Board resolved upon amendments to the system for the remuneration of the members of the Management Board of alstria office REIT AG, which were approved by the shareholders in the Annual General Meeting in May 2017 and took effect on January 1, 2018. The amendments aim at better aligning the interests of the Management Board and the shareholders of the Company, focusing on sustainable long-term value creation and reducing complexity. The structure of the remuneration system is kept substantially unchanged and only simplifications and amendments are made. The amounts of the fixed annual remuneration and the target values for the variable remuneration remain unchanged. When reviewing and adapting the remuneration system for the members of the Management Board, the Supervisory Board was advised by an external, independent remuneration expert.

The criteria for appropriateness of the Management Board remuneration continue to be the responsibilities of the individual Management Board member and his or her personal performance; the financial situation, success, prospects, and the sustainable development of the Company; the appropriateness of the remuneration with consideration of the scope of comparison; and the Company's applicable remuneration structure.

The remuneration structure still consists of a fixed basic remuneration, a short-term and long-term variable remuneration component, and ancillary benefits (payments in kind) for each member of the Management Board. As required by the German Stock Corporation Act and the German Corporate Governance Code, the majority of the remuneration consists of variable remuneration components that are mainly based on multi-year assessments with forward-looking characteristics. Furthermore, Share Ownership Guidelines have been introduced under which the members of the Management Board are obliged to invest part of their remuneration in shares of the Company.

## Overview of the essential amendments

	2017	2018
STI (Short-Term Incentive)	<ul style="list-style-type: none"> <li>▪ FFO as target value</li> <li>▪ Threshold for the performance target: 50%</li> <li>▪ Discretionary factor to reflect individual performance: 0.8–1.2</li> <li>▪ 75% cash payout / 25% payout in virtual shares</li> </ul>	<ul style="list-style-type: none"> <li>▪ FFO per share as target value</li> <li>▪ Threshold for the performance target: 70%</li> <li>▪ Discretionary factor to reflect individual performance: 0.7–1.3</li> <li>▪ 100% cash payout</li> </ul>
LTI (Long-Term Incentive)	<ul style="list-style-type: none"> <li>▪ Virtual shares with term of 4 years, then payout in cash</li> <li>▪ Performance subject to absolute TSR (50%) and relative TSR (EPRA/NAREIT Europe Ex-UK Index) (50%)</li> <li>▪ Discretionary factor to reflect individual performance: 0.8–1.2</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stock awards with term of at least 4 years, payout in Company shares</li> <li>▪ Performance subject to absolute TSR (25%) and relative TSR (FTSE EPRA/NAREIT Developed Europe Index) (75%)</li> <li>▪ Discretionary factor to reflect individual performance: 0.7–1.3</li> </ul>
Share Ownership Guidelines	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>	<ul style="list-style-type: none"> <li>▪ Obligation of the members of the Management Board to acquire shares of the Company amounting to three times their fixed annual remuneration and to hold the same until they leave their office</li> </ul>

## Variable remuneration elements

### Short-term incentive plan 2018

The members of the Management Board receive a short-term variable remuneration component (STI) with a target value in Euro in each financial year. Since January 1, 2018, the STI is based on the budgeted funds from operations *per share* (FFO per share) as the performance target (previously: funds from operations). The amount of the STI depends on the degree to which the performance target is achieved, i. e. the relation between the FFO per share achieved in the corresponding financial year and the budgeted FFO per share. The previous remuneration system provided for a threshold of at least 50% of the performance target that had to be met for payments to be made. This threshold has been increased so that at least 70% of the performance target has to be met for a payout, i. e. if the achieved FFO per share is not at least 70% of the budgeted FFO per share, remuneration from the STI will not be granted. A maximum of 150% of the performance target can be achieved (cap).

The achieved payout value is adjusted at the discretion of the Supervisory Board, i. e. multiplied with a discretionary factor of 0.7 to 1.3 (previously: 0.8 to 1.2). This enables the Supervisory Board to consider the individual performance of each Management Board member in addition to the performance target achievement. Criteria for this may be, in particular, the individual performance of each Management Board member in the relevant financial year as well as his or her tasks and responsibilities within alstria and the alstria Group. In total, the STI is limited to a maximum of 150% of the target value (cap).

According to the remuneration system as applicable until the end of financial year 2017, only 75% of the STI were paid out in cash to the Management Board members, and 25% of the STI were converted into virtual shares which were subject to a minimum holding period of two years. Now, the STI no longer provides for a long-term component with a conversion into virtual shares and will be paid out completely in cash without deferral. This change aims to simplify the remuneration system and was made in light of the Company's introduction of Share Ownership Guidelines under which the members of the Management Board are obliged to acquire and hold Company shares (for details see below under Share Ownership Guidelines).

#### ***Long-term incentive plan 2018***

The members of the Management Board may still also be granted a long-term variable remuneration component (LTI) in each financial year with a target value in Euro to be determined by the Supervisory Board. The LTI is still being weighted more strongly than the STI. Since January 1, 2018, the Long-Term Incentive Plan 2018 no longer provides for virtual shares but for stock awards which will be converted into shares of the Company after a holding period of at least four years (previously: cash payout). The absolute total shareholder return and the relative total shareholder return remain as performance targets. However, the relative total shareholder return has been given a greater weighting of 75% (previously: 50%). In order to better align with real estate industry standards, the reference index for the relative total shareholder return is now the FTSE EPRA/NAREIT Developed Europe Index (previously: EPRA/NAREIT Europe Ex-UK Index). The individual performance of the Management Board member is taken into account with a discretionary factor of 0.7 to 1.3 (previously: 0.8 to 1.2).

In detail:

The number of stock awards to be granted results from a target value defined by the Supervisory Board in Euro and divided by the arithmetic mean of the share price of one alstria share (commercially rounded to two decimal places) during the last 60 trading days prior to being granted. The Management Board member must hold the stock awards for a holding period of at least four years beginning with the granting date. The number of the stock awards will be adjusted at the end of each respective holding period depending on the performance of the alstria share during the holding period. Twenty-five percent of the performance target determined by the Supervisory Board is made up of the absolute total shareholder return derived from the 'weighted average cost of capital' (WACC) and compared to the XETRA-based Total Return Index. Seventy-five percent will be calculated on the basis of the relative total shareholder return compared to the reference index FTSE EPRA/NAREIT Developed Europe.

Furthermore, as with the STI, the individual performance of each Management Board member during the holding period is taken into consideration with a discretionary factor which is determined by the Supervisory Board within a corridor of 0.7 to 1.3. Criteria for this may be, in particular, the individual performance of each Management Board member during the relevant holding period as well as his or her tasks and responsibilities within alstria and the alstria Group. This allows these

factors to be taken into account in addition to the performance target achievement. After the expiration of the holding period, the number of stock awards adjusted with regard to the performance target achievement will be multiplied by the discretionary factor to determine the alstria shares to be delivered for payout. Additionally, the dividends accumulated during the holding period for the payout shares are taken into account. This is the accumulated gross dividend divided by the arithmetic mean of the alstria stock market price (rounded to two decimal places) of the last 60 trading days prior to the relevant maturity date. The resulting stock awards will be converted into alstria shares at a ratio of 1:1 and granted to the Management Board member. In addition, the amount paid out in the Long-Term Incentive Plan 2018 is limited by a cap (to a maximum of 250% of the target value in Euro).

If the Company is not in a position to provide the alstria shares, the payout will be made in cash (determined by the number of shares to be delivered multiplied by the arithmetic mean (commercially rounded to two decimal places) of the alstria stock market price of the last 60 trading days prior to the relevant maturity date.

#### **Ancillary benefits**

The Management Board members continue to receive payments in kind, which essentially consist of insurance premiums and the private use of a company car. As a component of the remuneration, taxes on these ancillary benefits are to be paid by each individual Management Board member. Each Management Board member is, in principle, equally entitled to these ancillary benefits, but the amount varies depending on the personal situation of each member. Moreover, as in the past, the Company still grants the members of the Management Board a monthly cash amount for the purpose of a private pension plan. These benefits now amount to 20% of each Management Board member's annual fixed salary. There are no pension entitlements.

#### **Share ownership guidelines**

Share Ownership Guidelines have been introduced for the first time. According to such guidelines, the members of the Management Board have been obliged since the beginning of financial year 2018 to set up a portfolio of shares equivalent to three times the fixed annual remuneration over a period of five years and to hold the same until they leave their office. The Share Ownership Guidelines aim in particular at reconciling the interests of the members of the Management Board with those of the shareholders and thus promoting sustainable entrepreneurial approaches.

## REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

The remuneration system for the members of the Supervisory Board is resolved upon by the Annual General Meeting of the Company. The last adjustment to the remuneration system became effective on January 1, 2018.

### 1. REMUNERATION IN THE 2018 FINANCIAL YEAR

The total remuneration for the Supervisory Board members in 2018 amounted to EUR 525 k. The remuneration for the individual Supervisory Board members for the 2017 and 2018 financial years is as follows.

in EUR k							
Supervisory Board member	Supervisory Board function	Audit committee	Nomination & remuneration committee	Finance & investment committee	CSR committee	Remuneration for 2017	Remuneration for 2018
Dr. Johannes Conradi	Chairman	-	Chairman	-	Chairman	70.50	165.00
Richard Mully	Vice-Chairman	-	Member	Chairman	Member	65.49	97.50
Dr. Bernhard Düttmann	Member	Member	-	-	-	51.30	60.00
Stefanie Frensch	Member	-	Member	Member	-	52.00	65.00
Benoît Héault	Member	Member	-	Member	-	57.00	67.50
Marianne Voigt	Member	Chairman	-	-	Member	57.00	70.00
<b>Total</b>						<b>353.29</b>	<b>525.00</b>

### 2. REMUNERATION SYSTEM

The members of the Supervisory Board each receive an annual fixed remuneration of EUR 50 k. The Chairman of the Supervisory Board receives an additional annual amount of EUR 100 k; the Vice-Chairman receives an additional amount of EUR 25 k.

Membership in the audit committee entitles a member to an additional remuneration of EUR 10 k, while the chair of the audit committee receives EUR 20 k per year. Membership in the nomination and remuneration committee as well as the finance and investment committee entitles a member to an additional annual remuneration of EUR 7.5 k. The chairpersons of these committees are compensated with another EUR 7.5 k per year. Membership in other committees does not entitle a member to additional remuneration. Members who sit on the Supervisory Board for only part of a year receive a *pro rata temporis* remuneration.

#### Adjustment of the remuneration system

The remuneration system which had been applicable until the end of financial year 2017 was adjusted by the Annual General Meeting of the Company in May 2017, effective January 1, 2018. In order to make the remuneration attractive compared with other enterprises as well as to take into account the Supervisory Board members' increasing workload and responsibility, a corresponding adjustment of the remuneration was proposed. Especially the comprehensive and time-consuming duties of the Chairman and deputy have been taken into account more strongly by providing differentiation in

remuneration levels of 1:1.5:3 for ordinary members of the Supervisory Board, Vice-Chairman, and Chairman. Furthermore, the increased responsibility and workload of the chairpersons of the committees have been taken into account by providing differentiation in remuneration levels of 1:2 for ordinary committee members and chair.

**Self-commitment to acquire shares**

The members of the Supervisory Board have agreed upon and entered into a binding commitment to acquire shares of alstria office REIT-AG for an amount corresponding to one time the adjusted fixed annual compensation for their activity as member, Chairman, or Vice-Chairman of the Supervisory Board (without committees and before taxes) and declared that they will hold them for the duration of their membership in the Company's Supervisory Board (Self-Commitment). The Self-Commitment has to be fulfilled within four years beginning January 1, 2018. By means of this Self-Commitment the members of the Supervisory Board intend to adhere to the guiding principles of the Share Ownership Guidelines introduced for the members of the Management Board and to declare their sustained commitment to the Company.

## REIT DISCLOSURES

### REIT DECLARATION

#### STATEMENT OF THE MANAGEMENT BOARD

In relation with the financial statements according to Section 264 of the German Commercial Code (*Handelsgesetzbuch, HGB*) and IFRS consolidated financial statements according to Section 315e HGB as per December 31, 2018, the management board issues the following declaration regarding compliance with the requirements of Sections 11 to 15 of the REIT Act (German Real Estate Investment Trust Act) and regarding the calculation of the composition of income subject to and not subject to income tax for the purpose of Section 19 paragraph 3 REIT Act in conjunction with Section 19a REIT Act:

1. As per balance sheet date, to our knowledge, 75.19% of alstria's shares were free float according to Section 11 paragraph 1 REIT Act. This was communicated in writing to the German Federal Financial Supervisory Authority (BaFin) on January 3, 2019.
2. In accordance with Section 11 paragraph 4 REIT Act, as per balance sheet date, no shareholder owned directly 10% or more of our shares or shares of such an amount, that he holds 10% or more of the voting rights.
3. In relation to the sum of the assets pursuant to the consolidated statements less the distribution obligation and the reserves pursuant to Section 12 paragraph 2 REIT Act
  - a) as per the balance sheet date the immovable assets amounted to EUR 3,994,659 k which equals to 95.54% of the assets, therefore at least 75% of the assets belong to the immovable assets;
  - b) the assets belonging to the property of REIT service companies as per balance sheet date which were included in the consolidated statements amount to a maximum of 20%, namely EUR 1,634 k and therefore 0.04%.
4. In relation to the sum of the entire sales revenue plus the other earnings from immovable assets pursuant to the IFRS consolidated financial statements (Section 12 paragraph 3 and 4 REIT Act)
  - a) for the financial year 2018, the entire sales revenues plus other earnings from immovable assets amounted to EUR 645.7 m. This equals 100% of total revenues plus other earnings from immovable assets;
  - b) the sum of the sales revenue plus the other earnings from immovable assets of REIT service companies amounted to EUR 43 k in the financial year 2018. This equals 0.01% of total revenue plus other earnings from immovable assets.

5. In the financial year 2018, a dividend payment of EUR 92,170 k for the prior financial year was distributed to the shareholders. The financial year 2017 resulted in a net gain amounted to EUR 50,605 k according to commercial law pursuant to Section 275 HGB.
6. alstria office REIT-AG's dividend does not derive from already taxed parts of the annual profit.
7. Since 2014, the Group has realised 28.04% of the average portfolio of its immovable assets and therefore did not trade with real estate according to Section 14 REIT Act.
8. On balance sheet date the Group's equity as shown in the IFRS consolidated financial statements was EUR 2,684.1 m. This equals to 67.19% of the value of the immovable assets which are shown in the consolidated financial statements in conformance with Section 12 paragraph 1 REIT Act (Section 15 REIT Act.).

Hamburg, February 21, 2019

**alstria office REIT-AG**

**Olivier Elamine**

CEO

**Alexander Dexne**

CFO

**REIT MEMORANDUM**

**AUDITOR'S MEMORANDUM ACCORDING SECTION 1 (4) REIT ACT**

To alstria office REIT-AG, Hamburg

As auditor of the annual financial statements and the consolidated financial statements of alstria office REIT-AG, Hamburg, for the financial year from January 1 to December 31, 2018, we have audited the information given in the attached declaration of the management board members for the compliance with the requirements of Section 11 to 15 of the REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19 (3) and Section 19a REIT Act as of December 31, 2018 (hereinafter referred to as "REIT declaration"). The information given in the REIT declaration is in the responsibility of the management board of the Company. Our responsibility is to express an opinion on the information given based on our audit.

We conducted our audit considering the audit guidance promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW): Particularities concerning the audit of a REIT stock corporation according to Section 1 (4) REIT Act, a pre-REIT stock corporation according to Section 2 Clause 3 REIT Act and the audit according to Section 21 (3) Clause 3 REIT Act (IDW PH 9.950.2). Therefore we have planned and performed our audit to make a judgment with reasonable assurance if the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act agrees with the announcements due to Section 11 (5) REIT Act as of December 31, 2018 and if the provided information concerning the requirements of Sections 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act is appropriate. It was not part of our engagement to fully assess the companies tax assessments or position. Within our audit procedures we compared the information concerning the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act provided within the REIT declaration with the announcements due to Section 11 (5) REIT Act as of December 31, 2018 and agreed the provided information concerning the requirements of Sections 12 to 15 REIT Act with the information disclosed in the annual financial statements and the consolidated financial statements of the Company. Furthermore we tested the adjustments made to the valuation of immovable assets held as investment for their compliance with Section 12 (1) REIT Act. We believe that our audit provides a reasonable basis for our opinion.

In our opinion based on the findings of our audit, the information given in the REIT declaration concerning the free float ratio and the maximum stock ownership per shareholder due to Section 11 (1) and (4) REIT Act agrees with the announcements made according to Section 11 (5) REIT Act as of December 31, 2018 and the information provided concerning the compliance with Sections 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act are appropriate. This memorandum is solely provided for submission to the tax authorities of the city of Hamburg within the tax declaration according to Section 21 (2) REIT Act and

is not to be used for other purposes. The order in whose fulfillment we provided above-named services for alstria office REIT-AG was based on the General Terms and Conditions for Certified Public Accountants and Auditing Companies dated 1 January 2017 (Annex 3.). By acknowledging and using the information contained in this memo, each recipient confirms that he / she has taken note of the regulations made therein (including the liability regulation under no. 9 of the General Conditions of Contract) and acknowledges their validity in relation to us.

Berlin, February 21, 2019

**KPMG AG**

Wirtschaftsprüfungsgesellschaft  
[Original German version signed by:]

**Schmidt**  
Wirtschaftsprüfer  
[German Public Auditor]

**Drotleff**  
Wirtschaftsprüfer  
[German Public Auditor]

## FINANCIAL CALENDAR

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### Events 2019

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May 22	Annual General Meeting
May 7	Publication of Q1 Interim report
August 13	Publication of Q2 Half-year interim report
November 5	Publication of Q3 Interim report Publication of sustainability report

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## CONTACT/IMPRINT

alstria office REIT-AG is a member of DIRK (Deutscher Investor Relations Verband, the German Investor Relations Association).

Other reports issued by alstria office REIT-AG are posted on the Company's website.

### Forward-looking statements

This annual report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise the actual results could differ materially from the results currently expected.

### Note

This report is published in German (original version) and English (non-binding translation).

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# BUILDING YOUR FUTURE

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