Redefine Living

ANNUAL REPORT 2018

NRW
WOHNT
LEG

Brief Portrait of LEG Immobilien AG

Regionally present, dependable and sustainable: As the market leader in one of Europe's largest metropolitan regions, LEG Immobilien AG relies on a deep understanding of the markets of North Rhine-Westphalia and proximity to its customers for its leading management concept.

With around 134,000 rental properties at 170 locations, the LEG Group is a prominent listed housing company in Germany, headquartered in Dusseldorf. The company is listed in the MDAX and generated rental and lease income of around EUR 767 million in the 2018 financial year.

LEG uses its property portfolio to serve the rising demand for affordable housing. LEG's apartments, with an average size of 65 square metres, are particularly interesting for the rapidly growing number of smaller households.

A consistently value-driven business model geared towards medium to long-term growth combines the interests of its shareholders and tenants. LEG is systematically continuing its growth strategy with active investment in its properties and the acquisition of selected portfolios.

About this Report

The PDF version of our Annual Report was optimised for use on a PC or tablet. By displaying the report in landscape format with a single page view, the reading experience is the same as with a monitor. The linked tables of contents ensure reliable navigation through all sections. The numerous links throughout the PDF report, as well as the helpful tabs on each page, make it easier for the reader to create content references and facilitate the convenient, customised and transparent display of information.

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Key Figures 2018

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		2018	2017	+/– %/bp
Results of operations				
Rental income	€ million	560.2	534.7	4.8
Net rental and lease income	€ million	418.6	399.4	4.8
EBITDA	€ million	1,188.4	1,408.1	-15.6
EBITDA adjusted	€ million	405.2	385.7	5.1
EBT	€ million	1,096.4	1,120.3	-2.1
Net profit or loss for the period	€ million	847.1	844.8	0.3
FFO I	€ million	318.6	295.3	7.9
FFO I per share	€	5.04	4.67	7.9
FFO II	€ million	318.8	294.1	8.4
FFO II per share	€	5.04	4.65	8.4
AFFO	€ million	139.7	179.8	-22.3
AFFO per share	€	2.21	2.84	-22.3
Dividend per share	€	3.53	3.04	16.1
Portfolio		**31.12.2018**	31.12.2017	+/– %/bp
Number residential units		133,969	130,085	3.0
In-place rent	€/sqm	5.65	5.50	2.8
In-place rent (l-f-l)	€/sqm	5.67	5.50	3.0
EPRA vacancy rate	%	3.5	3.5	0 bp
EPRA vacancy rate (l-f-l)	%	3.3	3.3	0 bp
Statement of financial position		**31.12.2018**	31.12.2017	+/– %/bp
Investment property	€ million	10,709	9,460.7	13.2
Cash and cash equivalents	€ million	233.6	285.4	-18.1
Equity	€ million	4,783.9	4,112.4	16.3
Total financing liabilities	€ million	4,598.1	4,299.6	6.9
Current financing liabilities	€ million	484.8	478.2	1.4
LTV	%	40.7	42.3	-160 bp
Equity ratio	%	42.7	41.1	+160 bp
Adj. EPRA NAV, diluted	€ million	6,613.7	5,753.0	15.0
EPRA NAV per share, diluted	€	96.10	83.81	15.0
Pro forma NAV after simulated conversion	€ million	6,428.0	5,553.6	15.7
Pro forma NAV after simulated executed conversion per share	€	93.40	80.90	15.4

bp = basis points

2018 in brief

JANUARY

LEG recognised for "high customer confidence"

LEG Immobilien AG is awarded the Wirtschaftswoche seal of approval for "high customer confidence", outperforming the industry average in the process. In October 2018, LEG even receives the award "Very high customer confidence".

FEBRUARY

LEG celebrates fifth anniversary of IPO

LEG's shares were traded on the Frankfurt Stock Exchange for the first time on 1 February 2013. Its opening share price was EUR 44.50. Five years later, the shares are trading at EUR 87.80 – nearly twice as high. In 2013, LEG managed 91,000 apartments; today, the figure is over 130,000.

MARCH

12,000 registrations in new tenant portal

The LEG tenant portal and app have been available to all customers since February. 12,000 tenants had already registered with the tenant portal by the end of March, allowing them to update their own data, obtain rent confirmations or view the latest operating cost statement via smartphone and internet.

APRIL

LEG is one of Germany's best training workplaces

LEG receives the coveted "Germany's best training workplace 2018" accolade. The study was conducted by Faktenkontor GmbH on behalf of Focus Money.

MAY

Supervisory Board of LEG Immobilien AG re-elected, Michael Zimmer confirmed as Chairman

The Annual General Meeting re-elects the Supervisory Board of LEG Immobilien AG. Following the Annual General Meeting, the Supervisory Board confirms Michael Zimmer as its Chairman.

JUNE

Winner of LEG and Unitymedia ideas competition crowned at ANGA COM

Together with the cable network operator Unitymedia, LEG initiated the "Smart Living" ideas competition to find innovations to improve the attractiveness of properties and increase comfort for residents. "PAUL – Digitalisation of drinking water", an innovative idea for the prevention of Legionella bacteria in the building water supply, is crowned as the winner at the international broadband trade fair ANGA COM. PAUL stands for "Permanent Analytic Use Log". The "PAUL" team from the start-up ActAqua now has the opportunity to realise its pilot project together with the initiators of the competition.

JULY / AUGUST

LEG makes largest investment in its apartments for 20 years

In July and August, LEG announces information about its modernisation programme, with over EUR 250 million to be spent on maintenance and modernisation in 2018. LEG is spending an average of around EUR 30 per square metre of residential space in order to improve the amenity value for its tenants. This represents the highest level of investment in 20 years, and surpasses the previous year's figure by EUR 7.

AUGUST

LEG acquires portfolio of around 3,750 apartments in core NRW markets

LEG acquires a portfolio of around 3,750 apartments from Vivawest. The locations are situated in core NRW markets such as Duisburg, Essen, Gelsenkirchen and Hagen. With this acquisition, LEG is pressing ahead with its focused growth strategy.

The privatised LEG is 10!

The former Landesentwicklungsgesellschaft Nordrhein-Westfalen GmbH was privatised on 28 August 2008.

SEPTEMBER

Lars von Lackum appointed to the Management Board from 1 January 2019

LEG creates the new role of Chief Digital Officer (CDO) and gains Lars von Lackum from ERGO International AG. Thomas Hegel (CEO) takes on additional responsibility for operating business and hands over other areas. Holger Hentschel (COO) leaves the company by amicable agreement on 1 October 2018. The responsibilities of Eckhard Schultz, CFO and Deputy Chairman of the Management Board, remain unchanged. Lars von Lackum joins LEG with effect from 1 January 2019.

7th LEG Housing Market Report NRW published

Affordable housing is still available in NRW. This is the summary of the 7th LEG Housing Market Report NRW, published by LEG in cooperation with the real estate consulting firm CBRE. The study of the twelve key housing markets of North Rhine-Westphalia and detailed analyses of a total of 60 locations creates market transparency for all parties involved in residential property.

LEG-Wohnungsmarktreport

OCTOBER

VitalServicePlus gains cooperation partner

The subsidiary VitalServicePlus GmbH (VSP), whose formation was notarised in December 2017, provides LEG tenants with services relating to care, safety, vitality and community support. Following a previous cooperation with the high-profile senior care provider Home Instead, VSP has gained another partner: "Weisser Ring e.V." will support VSP in the area of protection and security. A renowned non-profit association, it is committed to helping the victims of crime and protecting the population against criminal offences.

VitalServicePlus

NOVEMBER

New buildings in the Weißenburg estate fully let

The redensification of the car-free Weißenburg garden estate in Münster is a big success. Half a year after the completion of the 51 new apartments, they are fully let – as are all of the 189 apartments in the rest of the neighbourhood. The garden estate offers residents a first-class infrastructure and modern, largely barrier-free housing.

DECEMBER

LEG obtains "berufundfamilie" certificate

LEG offers extensive services for ensuring a healthy work-life balance, including its partnership with the PME family service, health management, flexitime and flexible working hours. In 2018, the company also underwent an audit to obtain the renowned "berufundfamilie" certificate. The seal of quality is awarded as part of an initiative of the non-profit foundation "Gemeinnützige Hertie Stiftung" under the patronage of the German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth and the German Federal Ministry for Economic Affairs and Energy.

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TO THE SHAREHOLDERS

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Letter from the Management Board

THOMAS HEGEL
Chief Executive Officer

ECKHARD SCHULTZ
Chief Financial Officer

Dear Investors and Friends of the Company, Dear Readers,

2018 was a historic year for LEG: The former state development company was privatised ten years previously, and five years ago we successfully floated your company on the stock exchange. Our goals were ambitious: We wanted to transform a shrinking state-run operation into a successful housing company. There was no guarantee of success, but we made it work. "NR what?" – this is a question we often faced at our first international investor roadshows. Today, the capital market can well appreciate the appeal of residential portfolios in North Rhine-Westphalia, Germany's most populous federal state > **Focus on the NRW Region.** And as the German property world's third-largest listed housing company, your LEG has made itself indispensable.

We stand for a solid and sustainable business model, profitability and financial strength. We also have clear concepts for the further development of LEG. Reliability coupled with a high degree of creative drive and innovation – that's how we would like to redefine living and that is how we see ourselves as a company and in our management role. And it is precisely this that we would like to explain to you in this introduction.

Stable Growth in 2018

Our strategy again paid off in the reporting year. As expected, in-place rent in the LEG portfolio therefore rose by 3.0 % on a like-for-like basis. Average in-place rent in our free-financed portfolio increased by as much as 3.9 % (like-for-like). In the 2018 financial year, we continued to make successful efforts to further improve the profitability of the LEG Group. At the same time, however, we are seeing more pronounced cost inflation when it comes to craftsmen services, a fact that lies outside our control. All in all, we increased FFO I, the key earnings indicator in our industry, by 7.9 % to EUR 318.6 million, thereby reaching our target for the year once again. Our growth will continue in the coming years despite the dampening effects of further cost inflation for craftsmen, stricter rent regulation and acquisition-related non-recurring effects in 2019. We are therefore confirming our earnings targets and are anticipating FFO I of EUR 338 to 344 million in the 2019 financial year and EUR 356 to 364 million in the 2020 financial year. Having announced last year that we intended to raise our distribution ratio from 65 % to 70 % of FFO I, the Supervisory Board and the Management Board will propose a dividend of EUR 3.53 per share for the 2018 financial year at the Annual General Meeting in May. This corresponds to an increase of 16.1 %. Furthermore, the Group's net asset value (NAV) increased significantly. In order to provide the greatest possible transparency in connection with the convertible 2014/2021 we have expanded our NAV reporting methodology given that, from 2019, there is an increasing probability of early conversion and we wanted to clearly indicate the related effects. The pro forma NAV assumes the conversion of the convertible bond as at the reporting date. It increased by 15.4 % to EUR 93.40 year-on-year. At the same time, LEG's risk profile remains low, with net debt in relation to property assets (LTV) of 40.7 % at the end of the financial year. Our financing conditions with a low average interest rate of 1.58 % are secured on a long-term basis with an average term of 7.6 years.

In addition to our good financials, we have also made progress in other areas as well. We expanded our market position in NRW again in 2018, in particular as a result of a major portfolio acquisition: As at 1 October we took on and successfully integrated approximately 3,750 apartments from Vivawest. **> Acquisitions.** Our portfolio got a further boost from the completion of approximately 50 newly built apartments in Münster – our first new construction project in several years, which at the same time kicked off work to build up to 1,000 new units in the coming years. **> New Construction.**

Focus on Modernisation

Moreover, we further advanced our organic growth with value-adding investment in our properties. We launched our extended, five-year, EUR 360 million modernisation programme in autumn 2017. In 2018 we not only continued this, but also redoubled our efforts: Under this programme alone, around EUR 80 million was channelled into the modernisation of our properties over the course of the year. The area focused on was energetic refurbishment, i.e. climate protection. **> Modernisation of our Properties.** The continuous expansion of our innovative value-adding services for our customers has also since become a fixed component of our strategy. LEG generated a significant additional contribution to earnings for our shareholders in 2018 with energy, multimedia and small repair services. Since the middle of last year, our range has also been extended to include cooperations for elderly living, which essentially serve to augment customer loyalty. **> Value-adding Services.**

Customer Confidence is of Special Significance

Customer service also means being available wherever customers wish to contact us. We have clearly tapped a rich seam here: LEG's digital channels have become massively popular. But the central customer service remains the heart and switchboard. Trained property experts field all questions relating to residential matters by phone and e-mail. The emergency repair service hotline is open 24 hours a day, seven days a week.

Are we satisfied yet? No. We have big plans for customer accessibility and service quality in the next few years. We know that our customers sometimes value personal interaction. Some of the ways we provide this include information bus tours and consultations in our tenant offices. Moreover, any complaint from a tenant who has to wait too long for a repair today is one complaint too many. We have therefore very recently once again stepped up recruitment for our internal workmen organisation and hired regional quality control.

In a nutshell, our motivated staff is working intensively on our customer focus – every single day. By far most of our tenants are happy to live with LEG. We know this from our own surveys and external appraisals. As a result, the business magazine Wirtschaftswoche has awarded our company its "Very high customer confidence" seal of approval by the end of 2018. Another good sign is that our customers stay with us for an average of twelve years. And we are confident that we can improve our customer satisfaction even more.

> "OUR MOTIVATED STAFF IS WORKING INTENSIVELY ON CUSTOMER ORIENTATION – EVERY SINGLE DAY. "
>
> THOMAS HEGEL (CEO)

Paving the Way for Constructive Relationships

However, we are concerned by the mistrust that the industry as a whole is currently facing in Germany. The German housing market, with its diversified provider structure, is characterised by fair competition and – by international standards – high stability, well distributed market shares and a broad range of options for differing needs. Nevertheless, there is a prevailing opinion among the public that the market needs to be even more heavily regulated. Were it to lead to short-sighted political repercussions and the denial of vital investment projects, this impression would be fatal. It is therefore time to bring relationships between the consumers, politicians and housing industry back to a constructive footing. We are working on this together with competitors and associations – because rent control legislation and caps will not lead to the creation of a single additional square metre of living space. Together with our dialogue partners from the worlds of science and politics, we want to devise smart concepts for faster new construction, effective climate protection, more flexible rent models and social residential concepts.

Actively Shaping the Property Industry

Since the 1970s, housing issues have rarely been associated with the kind of controversy that they are today. As a key player, we would like to play an active role in shaping the future of the housing industry. Especially because of our special history, we are virtually second to none in our experience of balancing the three goals of affordable living space for our customers, appropriate yield for our shareholders and secure jobs for our employees. Sound judgement regarding modernisation and neighbourhood development, together with commercial prudence, are among our most fundamental principles. The regulatory specifications of the Mietrechtsanpassungsgesetz (German Tenancy Law Amendment Act) of 1 January 2019 naturally affect us too, but do not have a material influence on our business model. After all, we have always had an interest in keeping a close eye on our tenants' economic capacity.

It is a key management principle of LEG to address risks and opportunities openly and transparently. This has also been confirmed again and again by the excellent rankings for our capital market communications. For instance, the Head of our Investor Relations department was again awarded the "Deutsche Investor Relations Preis" award for the MDAX in 2018.

> "IN 2018, WE FURTHER EXPANDED OUR MARKET POSITION IN NRW.
>
> ECKHARD SCHULTZ (CFO)

Designing the Future via Innovativeness

The fact that we adopted a forward-looking positioning very early on has given LEG a significant edge. We can therefore continue to operate successfully even under new conditions. In doing so, we also want to improve comfort and convenience for our customers beyond conventional rental services, and to make our internal processes as efficient as possible. We have already made good progress towards achieving these goals with our digitisation and innovation strategy. One example of this is Doozer, a platform for arranging craftsmen services that accelerates new rentals. Or, for instance, using artificial intelligence to help employees in receivables management. We have around a dozen ideas in our innovation pipeline – from automatic leak reporting to digital leases. > **Digital transformation.**

To keep all its innovation ideas moving forward professionally, LEG institutionalised innovation management in 2017 – for keeping an eye on the radar, networking with start-ups, assessing wide-ranging business ideas and managing pilot projects.

We are thereby systematically plotting our course for profitable growth in the digital era. In keeping with this, the Supervisory Board has reorganised the Management Board of LEG Immobilien AG to keep it viable moving ahead. Our colleague and Chief Operating Officer Holger Hentschel left the company on the best possible terms as at 1 October 2018. His duties have essentially been reassigned to the Chief Executive Officer. On the other hand, we have created the position of Chief Digital Officer to be in charge of the future issues of process efficiency, digitisation, innovation, new construction, corporate development and our subsidiary EnergieServicePlus. Lars von Lackum joined us on the Management Board team on 1 January 2019 to fulfil this role. He has previously made a name for himself in both the property industry and in insurance, having been a CFO, Chief Strategist and recently Director of International Legal Insurance at Ergo Versicherung. We are delighted that he has joined us, and we feel that the Management Board is now ideally positioned to face whatever the future may bring.

When we began to privatise LEG about ten years ago, we could barely have imagined that our journey would be so dynamic. Today, dynamic is the tool we need for a successful future. And with the support of the Supervisory Board, our dedicated employees and our clear strategic focus, your LEG is developing in the right direction. We would like to thank all our employees for their commitment, and our shareholders, tenants and business partners for their trust.

Thomas Hegel

THOMAS HEGEL
Chief Executive Officer

Eckhard Schultz

ECKHARD SCHULTZ
Chief Financial Officer

Six Focus Topics of Strategic Development

Our long term strategy of continuous growth has proved its worth. In the future as well, it will remain our key to success and determine our actions. It consists of six pillars:

FOCUS ON THE NRW REGION

The majority of our 360,000 tenants live in this region and in 170 different locations. Our excellent management expertise results from the in-depth knowledge of our core markets.

IN NRW WE ARE NUMBER **1**

MODERNISATION

1.7 EUR BILLION

are earmarked for maintenance and modernisation from 2013 (IPO) to 2021. In 2018 we spent on average around EUR 30 per square metre.

NEW CONSTRUCTION

C. **1,000**

new apartments shall be constructed by LEG in the next few years - depending on the economic and legal conditions. We build on own land, for all generations and environmentally friendly.

ACQUISITIONS

C. **3,750** UNITS

represent the largest portfolio LEG bought in 2018. These properties are in our core markets and in the vicinity of other LEG properties which ensures easy integration and the generation of synergies.

DIGITISATION

c. 20,000 customers are already using our new tenant app, one of numerous digital applications developed by LEG. Digital transformation offers huge potential for customer communication, additional income and efficiency gains. LEG is one of the leading players in the industry.

VALUE ADDING SERVICES

c. 350 craftsmen are working with TechnikServicePlus, our internal repair service. Other value added services are attractive multimedia offers and, since 2018, cooperations in the area of domestic care and safety.

Focus on the NRW Region

North Rhine-Westphalia is home to 17.9 million people. If asked, perhaps the only thing outsiders could tell you about it is that it is Germany's most populous federal state, while we locals tend to conjure up images of the Wuppertal suspension railway, the Dortmunder U, Cologne Cathedral or Dusseldorf's Media Harbour.

NRW wohnt LEG

But naturally NRW offers far more than just culture and history, because above all things it is also an innovative business location and engine for the whole of Germany. Good transport connections, a number of educational institutions and diversity at all levels make North Rhine-Westphalia an attractive residential location with a high quality of living.

So it is for good reason that we manage more than 134,000 apartments here and provide over 360,000 people with a good, affordable and safe home. This is also the core message of our "NRW wohnt LEG" campaign, which is intended to make the LEG brand even more widely known. We wish to convey what we are to our tenants, business partners, investors and the public: Your reliable, strong and fair landlord in NRW.

As NRW's market leader, we will continue to focus on this region moving ahead as well. Here we know the local markets, the property locations and the needs of our tenants especially well. Thanks to bespoke strategies, we achieve strong results across our entire portfolio and can leverage our management expertise to create value added. We divide our portfolio into three clusters: high growth markets, stable markets and higher yielding markets. LEG's investment strategy for the individual markets is clearly geared towards a risk/return assessment. The focus for the high growth markets is on rent potential, while in higher yielding markets it is on avoiding vacancies and preserving value.

Our expertise is also demonstrated in our LEG Housing Market Report NRW. We create market transparency with this detailed analysis of 60 locations in total with a special focus on the twelve largest residential markets. For cities, municipalities, construction companies, investors, property brokers, tenants, owners and anyone interested in the subject of residential property. The report shows that rents rose in average moderately by 2.6 % in NRW in 2017 (previous year: 4 %). The average asking rent in NRW was EUR 6.67 per square metre in 2017. Within the region, this therefore gives special significance to LEG's properties that – with an average rent of EUR 5.65 per square metre – focus exclusively on the strongly demanded affordable housing segment. The conclusion reached by the current report is that NRW is a good place to live. There is still affordable housing available – but construction activity is too low at the top locations.

LEG-Wohnungsmarktreport

"WE ARE STRONG IN NORTH RHINE-WESTPHALIA. YOU CAN STILL LIVE WELL HERE."
THOMAS HEGEL (CEO)

Modernisation of our Properties

We are actively investing in the modernisation and maintenance of our housing portfolio. This is another driver for sustainable growth. We do not take a shotgun approach to investment, rather we always have an eye of what are customers need and what they can afford. We call this modernisation with sound judgement.

From the IPO to 2021: EUR 1.7 billion for the Maintenance and Modernisation of our Properties

We want to increase residential amenity, lay the foundations for future rental growth and at the same time keep on offering affordable housing. Much of our modernisation work therefore involves energetic benefits. This is because new thermal insulation, insulated windows and doors or the installation of new heating technologies make our buildings more efficient. Moving ahead, they will need less energy – which in turn means savings on heating costs for our customers. At the same time, we are making a valuable contribution to the environment. Other key aspects of our modernisation investments serve to increase comfort, protect against noise and enhance safety.

Since our IPO six years ago, we have already invested EUR 880 million in our apartments and locations, modernising thousands of apartments. By 2021, we will be investing around EUR 800 million more in maintenance and modernisation. We are thereby also creating important jobs right in our region, especially in the skilled trades, and thus also helping North Rhine-Westphalia as a business location.

2018 was a milestone in this regard: with investments of around EUR 250 million in total or an average of approximately EUR 30 per square metre of living space. This is the highest level of investment in 20 years, and surpasses the previous year's figure by around EUR 7 per square metre. Modernisation work accounted for approximately 71% of total investment.

Monheim am Rhein serves as a particularly comprehensive example of investment in the modernisation of an LEG neighbourhood. Since April 2016, this has been the site of our biggest modernisation project with an expenditure of around EUR 54 million in the town's Berlin quarter. The programme as a whole will continue until 2020. The modernisation of the roughly 1,770 apartments will allow energy savings and increase the value of the sub-portfolio while also enhancing its technical quality and design quality. Our modernisation work also focused on other prosperous locations such as Aaseestadt and Gremmendorf in Münster.

We are again planning to invest more than EUR 270 million in maintenance and modernisation measures in 2019.

"IN 2018 WE INVESTED MORE THAN EUR 250 MILLION IN OUR HOUSING PORTFOLIO."

ECKHARD SCHULTZ (CFO)

New Construction

Living without the noise of traffic on your doorstep – this is something that the tenants of the new buildings in the Weißenburg estate get to enjoy. The 51 apartments in central Münster are the first new LEG units to be completed in several years. They complement an existing pedestrianised neighbourhood.

Accessible and Environmentally friendly Apartments in new Buildings

Thanks to their attractive location and modern features, the apartments, some of which offer enhanced accessibility, were let immediately after they were completed – needless to say, on schedule and within budget. As for all our new construction and modernisation projects, we kept our existing tenants informed and up-to-date before and throughout the work being done.

In 2018, this good experience in Münster, but above all the general social need for residential space in metropolitan areas, prompted us to take a closer look at all the options for new LEG construction projects. This way we can make our contribution towards helping to ease the tense demand situation for affordable living space, while at the same time developing an additional driver for future corporate growth.

However, new buildings for the affordable rental segment are currently only economically feasible when filling in vacant lots on land already owned.

In line with this thinking, we have identified the potential for around 1,000 new apartments in existing neighbourhoods or as supplementary development for the years ahead – in particular in Cologne, Essen and Hilden near Dusseldorf.

"IN 2018 WE EXAMINED ALL OPTIONS FOR NEW CONSTRUCTION AND IDENTIFIED THE POTENTIAL FOR AROUND 1,000 NEW APARTMENTS."

THOMAS HEGEL (CEO)

Naturally, there are also several challenges to be overcome, such as complex approval procedures, technical – above all energy – requirements for new buildings and the growing shortage of skilled labourers and craftsmen in the construction industry.

Incentive systems for investment in residential construction, the debureaucratisation of the permit process and an easing of the German Energy Saving Ordinance are essential if housing companies are to be granted the necessary flexibility to build in the affordable segment.

Acquisitions

Active portfolio management is a key aspect of LEG's strategy – and it has been since day one after the former state development company was privatised in 2008.

Value-driven Acquisitions as Part of a focused Growth Strategy

In net terms, the portfolio prior to privatisation has since grown to around 134,000 apartments today. Since our IPO six years ago, we have acquired around 50,000 residential units and successfully integrated them into our portfolio with a high degree of profitability. LEG has clear regional, structural and financial criteria for acquisitions: They focus on core regions in North Rhine-Westphalia, where we can achieve the utmost cost synergies thanks to our established strong presence.

But our platform also allows us to manage portfolios beyond state lines – which is why neighbouring regions in Lower Saxony, Hesse and Rhineland-Palatinate are also on our radar.

"WE EXPANDED OUR POSITION ON THE TRANSACTION MARKET AGAIN IN 2018."
THOMAS HEGEL (CEO)

Last but not least, the key financials have to be right: Major aspects of this include improved operating margins, a positive contribution to earnings per share and higher net asset value (NAV). As for all investments, our top priority is capital discipline.

Obviously, under such tough conditions and in times of considerably higher purchase price expectations, acquisition business is not a guaranteed success. And yet we have known success in this setting. In recent years, it has been shown time and again that LEG can above all play to its strengths on the transaction market in special situations, and can win partners over with its solid reputation, reliability, financial clout and professionalism. We were therefore able to expand our market position again in 2018.

First and foremost, this includes the acquisition of approximately 3,750 apartments from Vivawest in autumn 2018. The portfolio generated rental income of around EUR 13.5 million in the past financial year. The neighbourhoods acquired are mostly in the Ruhr area and bordering Westphalia, and so right in the heart of our core markets where LEG already has significant management expertise at its fingertips. So there were no obstacles standing in the way of the rapid and lasting integration of this extensive portfolio, and we were able to offer our new tenants professional letting services with value added right from the get-go.

Moving ahead as well, we want to continue developing our portfolio with external growth.

Digital Transformation

“Welcome to LEG Wohnen! I am your virtual assistant Matthias.” Matthias has been helping prospective tenants to look for an apartment since 2018. This way, they often find the right offer more quickly than when searching by conventional channels such as website, phone or e-mail. A win-win situation for new tenants and our lessors, who are spared having to reply to queries and arrange unsuitable viewing appointments.

Creating Value added in the digital Era

It’s not rocket science. But especially in terms of customer contact, LEG started using digital applications early on, and is now benefiting from this move. And clearly this was the right move at the right time: The number of our customers registered to use the LEG app and the tenant portal rocketed from zero to 20,000 in the space of just twelve months.

Artificial intelligence is the icing on the cake of automation. In practice, we rather see the use of robotics. In receivables management, for instance, we have been using an accounting robot since August 2018. It opens the statement in the tenant account, identifies the relevant receivable by interpreting the reason for payment and settles this against the incoming payment. Our specialists are spared the somewhat monotonous task and have more time to take care of more complex customer concerns. This is a pleasing development but it is important that employees can keep up with it. Whatever the technology, there is no success in digitisation without readiness for change.

Another logical component of our project pipeline is innovative applications and products in the realm of building intelligence in particular, which we are currently testing in pilot projects. Whether it’s a smart heating sensor or an automatic leak report, there’s enough excitement to go round. We apply tough selection criteria in deciding which new product developments to pursue next. The business case has to be economically viable and the marketing prospects have to be right. Qualitative aspects such as greater convenience and customer satisfaction are also taken into account.

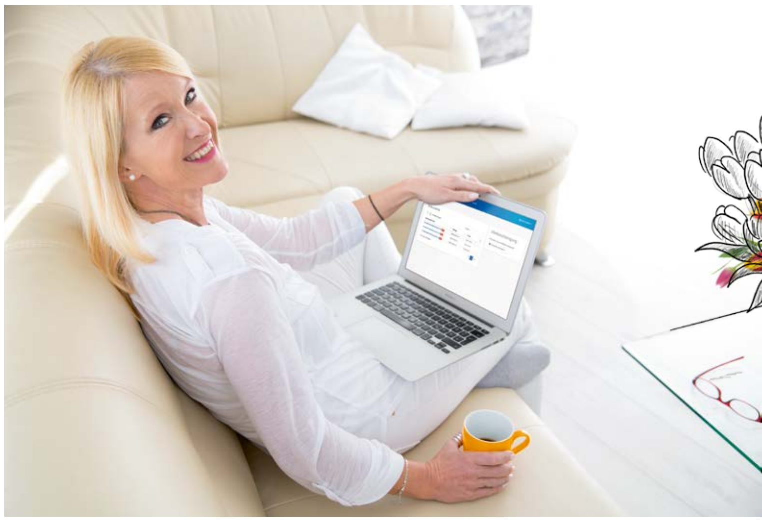
PropTech helps us to find our way to our future business. Such activities have therefore been on our radar since the very beginning. Key preconditions include competent contact partners and a certain degree of start-up maturity. Doozer, a provider for craftsmen services, is one example of this.

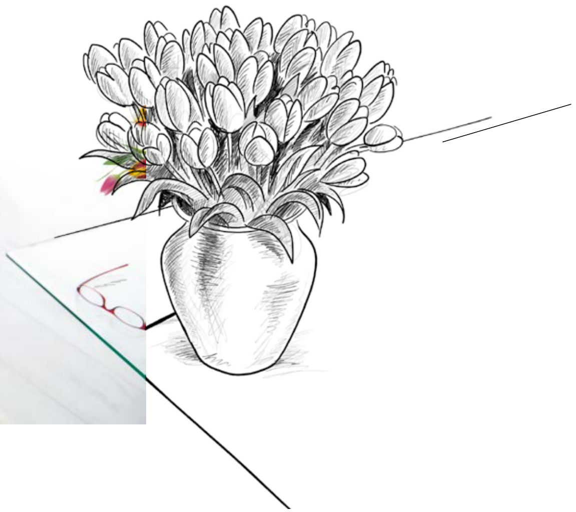
This sounds like a lot of different activities – and even though we are the frontrunner in many areas, there are others where we are only at the start of our journey. Big data, artificial intelligence and the Internet of Things still offer a great deal of potential for customer orientation, process optimisation and product development – potential that we intend to gradually tap.

This is because it is important to us to tackle the company’s digital transformation strategically. We take the action that our employees and customers can keep up with. And we improved our organisational and structural set-up again in 2018. Since 1 January 2019, there has been a Chief Digital Officer (CDO) on LEG’s Management Board. This role now bundles responsibility for future issues at LEG and ensures their consideration at the top level of management.

“WE ARE MAKING DIGITAL TRANSFORMATION A WIN-WIN SITUATION FOR OUR CUSTOMERS AND EMPLOYEES. THE BUSINESS CASE HAS TO BE ECONOMICALLY VIABLE AND THE MARKETING PROSPECTS HAVE TO BE RIGHT.”

ECKHARD SCHULTZ (CFO)





Value-adding Services

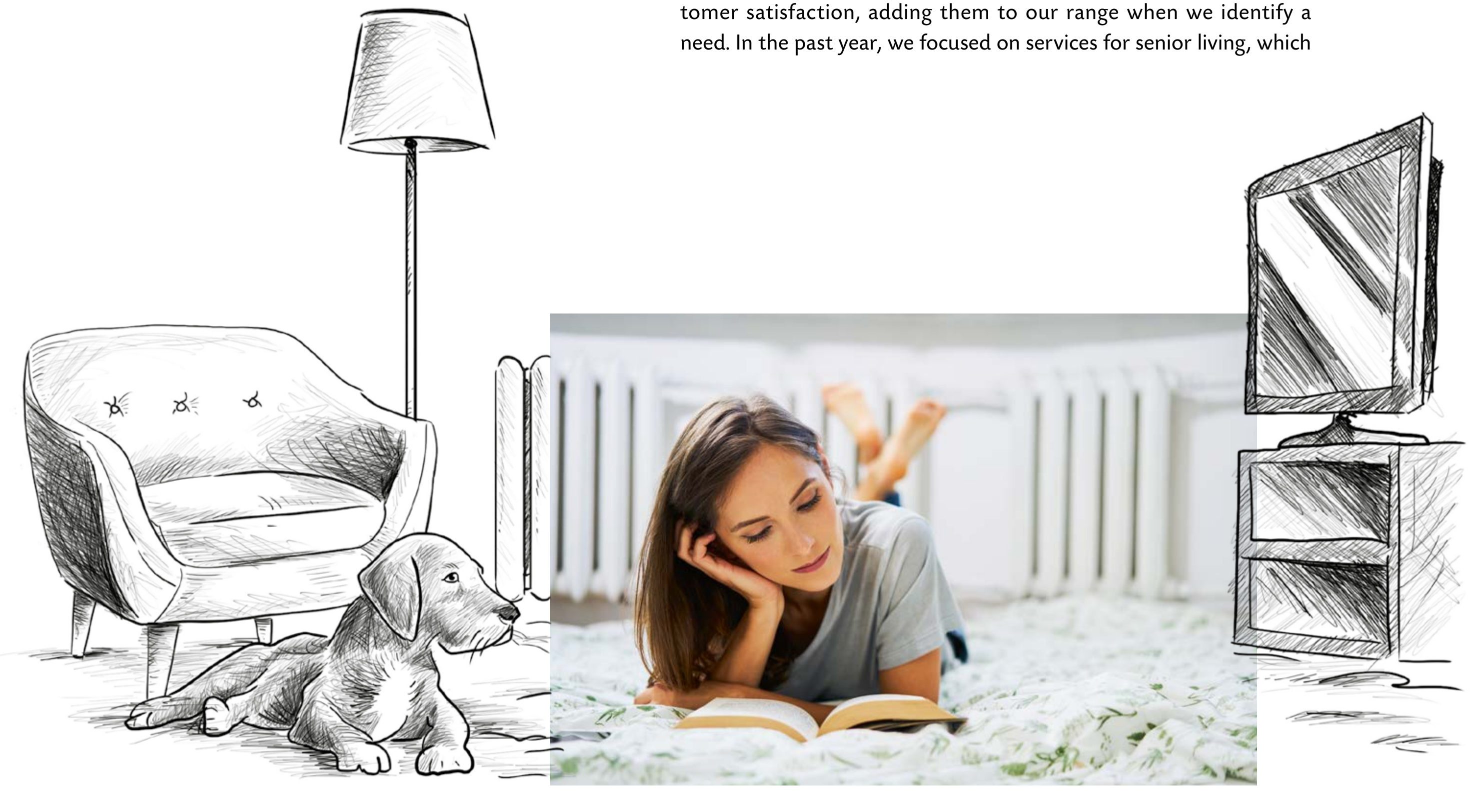
The continuous expansion of our innovative value-adding services is a fixed component of our sustainable growth strategy. They enhance our established core business with services for customers that relate closely to residential issues and are therefore an obvious addition to our classic rental business. We work with partners with the right experience and combine their special knowledge with our property industry expertise. This allows us to boost the appeal of our neighbourhoods in addition to customer satisfaction and loyalty.

ServicePlus Supplements Core Business

Successfully established additional services include energy provided by EnergieServicePlus (ESP) – a majority investment in a joint venture with the energy company innogy. ESP offers our customers reasonable electricity rates and manages aspects of the heating supply for our properties. In cooperation with Unitiymedia, we offer multimedia services for tenants through our subsidiary WohnServicePlus (WSP). Minor repairs are done by our company TechnikServicePlus (TSP). We work with the market leader B&O in this field. The top three value-adding services TSP, WSP, and ESP generated an FFO contribution of around EUR 16 million in 2018.

We are constantly considering additional services to improve customer satisfaction, adding them to our range when we identify a need. In the past year, we focused on services for senior living, which will become increasingly relevant as demographic change progresses. Our new company founded in 2018, VitalServicePlus, would like to help older people to stay in familiar environments for as long as possible, and so is working with a leading home support service, HomeInstead, in selected pilot neighbourhoods. In addition, in the field of security and crime prevention, there is a cooperation with the charity organisation Weisser Ring e.V.

Our goal is ambitious: We want to be the number one in ServicePlus. There are enough customer requirements in this field. However, as for all other aspects of our strategic agenda, when it comes to our value-adding services we must naturally always demand the highest standards of efficiency and cost awareness in the interests of our customers and our investors.



"THROUGH OUR VALUE-ADDING SERVICES, WE WANT TO MAKE DAY-TO-DAY LIFE EASIER FOR OUR TENANTS AND MAKE LIVING AT HOME AS PLEASANT AN EXPERIENCE AS POSSIBLE."

THOMAS HEGEL (CEO)

Equity Story

Attractive dividend Yield with Stable Growth Prospects

Sustainable dividend growth

Future revenue growth will continue to be driven mainly by structural organic rent growth, positive effects from acquisitions, including building new properties, and an expansion of service activities. A further increase in efficiency, i.e. an expansion of operating margins, and secure, long-term financing promise continued strong earnings growth. This will benefit shareholders directly. On the basis of a distribution ratio of 70 % of FFO I, the Management Board and the Supervisory Board will propose a dividend of EUR 3.53 per share for the 2018 financial year at the Annual General Meeting. At the closing price, this equates to a dividend yield of 3.9 %. Since the IPO, the dividend has increased by an average of 15.3 % per year. Dividends are also expected to continue increasing in the next few years.

Value of LEG property portfolio grows significantly

The attractiveness of the property portfolio is also reflected in its significant value growth. For example, the net asset value (NAV) per share has grown by an average of 13.6 % per year since 2013. The rental yield on the portfolio remains at an attractive level of 5.5 % and the reported carrying amount per square metre at EUR 1,198, thus still well below the costs for construction of new buildings.

Focus on attractive market region NRW

LEG is the largest property manager in NRW and therefore has in-depth knowledge of the local housing market and customers, which benefits not only tenants but also shareholders. The strategic focus on the metropolitan NRW region generates efficiency advantages for LEG, which are also supported by the favourable situation on the regional housing market. The market is characterised by high demand for affordable housing, which is being driven by steady growth in one-to-two-person households and by above-average immigration from abroad. LEG's housing offering is excellently tailored to these trends. Compared to other German metropolitan regions, absolute rents and affordability are at favourable levels, which will encourage stable growth in the future. The growth in many A locations is having significant positive effects on commuter regions. The LEG portfolio is in an ideal position here. About two thirds of the LEG portfolio is located solely in the 60 km commuter region around the two major economic centres of Dusseldorf and Cologne.

LEG's growth strategy is based on the three pillars of organic growth, acquisitions and value-added services:

Acceleration of organic rental growth through additional investment

LEG's management expertise and the positive market development were again demonstrated by like-for-like rent growth of 3.9 % in the free-financed portfolio in the 2018 financial year. LEG intends to accelerate internal growth through targeted investments in existing properties as well as selective construction. The five-year modernisation programme initiated in 2017 continued to gather pace in 2018. The value-adding additional investments, worth EUR 360 million in total, are focussed on energy renovation, which we are implementing carefully so as not to overwhelm our tenants. Additional growth opportunities are to be realised through construction, primarily on our own land. In April, the construction of 51 new residential units was successfully completed in Münster. Potential for the construction of around 1,000 new residential units has been identified so far.

Acquisitions in core markets offer attractive growth opportunities

Even in a difficult transaction environment, acquisitions remain a key element for value-adding growth. Due to the market-leading position in NRW and the widescale presence, acquisitions in core markets can be integrated into the portfolio with high synergies and little integration work. Local market knowledge helps LEG reduce risks from acquisitions and optimise the letting results of acquired portfolios. Around 4,000 residential units were acquired in the 2018 financial year and around 50,000 since the IPO in 2013, which has contributed to a significant increase in profitability. Especially in more complex transactions, LEG can also play to its competitive strengths in the current market environment.

Innovation and digitisation create added value

Innovative tenant services create added value by contributing to earnings and simultaneously increase tenant satisfaction. When cooperating with selected strategic partners, LEG uses their specific know-how from their respective industries. This strategy of cooperations and joint ventures is visible in the multimedia offering, the founding of the energy service provider EnergieServicePlus and the establishment of TechnikServicePlus for small repairs management. In addition, LEG continues to come up with new concepts to identify new business areas in a timely manner and to assert its innovation leadership. Exploiting the opportunities afforded by digitisation will also play a highly significant role for the future as well.

Exemplary operating margins despite higher costs

LEG is characterised by leading operational efficiency. Thus, it has significantly increased its EBITDA margin since the IPO – from 64 % in 2013 to more than 72 % in 2018.

It is striving for a further increase to 73 % in 2019. The increase is based on significant synergies from acquisitions on LEG's core markets as well as strict cost discipline and the continuous optimisation of business processes. It also compensated for cost increases relating to maintenance measures.

Secure, long-term financing at favourable conditions and a strong balance sheet

LEG's favourable, secure and long-term financing conditions thus continue to provide a strong foundation for future profit and dividend growth. The average interest rate was 1.58 % as at 31 December 2018, with an average term of 7.6 years. The strong balance sheet with low net debt in relation to property assets (LTV) of 40.7 % secures the position for future refinancing.

The Share

The German stock market, measured by the DAX benchmark index among others, saw a significant downturn in 2018 with a total performance of -18.3 %. This was the market's response to the increasing fears of recession in conjunction with a large number of especially political uncertainties. LEG's shares performed considerably better than the market as a whole in this environment, generating a return – including the dividend paid – of -1.2 % in 2018.

The German stock market was highly volatile overall in 2018. The DAX marked a new all-time high midway through the year, but the market then corrected sharply, especially in the final quarter, so the year as a whole closed with a significantly negative total return of 18.3 %. A weakening of the global economy in conjunction with numerous special factors (including trade tensions between the US and China, the impending Brexit and the Italian debt crisis) and a more restrictive monetary policy have led to increasing fears of recession. The German stock market, with a relatively high weighting of cyclical sectors, has suffered particularly severely from this, as well as individual sector-specific factors. For example, the automotive industry in particular was hit by the effects of the diesel issue.

With volatile development overall, the DAX already reached its high of 13,597 points on 23 January 2018. On the penultimate trading day of the year, the DAX sank to its low for the year at 10,279 points, which was simultaneously the lowest level since November 2016. The year was finally closed with the index at 10,559 points.

LEG Shares significantly outperform the Market as a whole with only minor losses

Defensive shares performed better in an increasingly risk-averse stock market environment. Housing company shares, which are comparatively resilient to economic trends, were among the preferred stocks. The shares also benefited from the fact that yields on ten-year Bunds dropped significantly again over the course of the year to a very low absolute level of 0.24 % at year-end. LEG's shares, with their stable growth profile, were therefore also able to perform better than the market as a whole. At a closing price of EUR 91.12, the price performance of LEG's shares came to -4.4 % in 2018. Including the dividend paid of EUR 3.04, LEG's shareholders therefore generated a slightly negative return of -1.2 % in 2018.

T2

Share performance indicators

Ticker symbol	LEG
German Securities Code Number (WKN)	LEG111
ISIN	DE000LEG1110
Number of shares	63,188,185
Initial listing	1 February 2013
Market segment	Prime Standard
Indices	MDAX, FTSE EPRA/NAREIT, GPR Indizes, Stoxx Europe 600, S&P EUROPE 350, GPR IPCM LFFS Sustainable GRES Index
Closing price (31 December 2018)	91.12 €
Market capitalisation (31 December 2018)	5,757.7 Mio. €
Free float (31 December 2018)	100 %
Weighting in the MDAX (31 December 2018)	2.71 %
Weighting in the EPRA Europe (31 December 2018)	2.74 %
Average single-day trading volume (2018)	159,640 shares
Highest price (28 August 2018)	105.65 €
Lowest price (13 February 2018)	83.48 €

Successful IR Activities

The priority for LEG's investor relations activities is active and transparent communication with capital market participants. This also includes personal dialogues with shareholders at key international financial centres. LEG had roadshows or took part in investor conferences on more than 30 days in the reporting year. There were also one-on-one talks with investors at the company's head office in Dusseldorf or as part of property tours.

The high level of interest shown by the capital market in LEG's shares is also reflected in the coverage of currently 24 analysts from renowned research firms. A current overview of analysts' recommendations and price targets can be found on LEG's website at **www.leg-wohnen.de/unternehmen/investor-relations/aktie/analystenempfehlung/**. Analysts' average price target was EUR 110 on 28 February 2019, with a substantial predominance of positive analysts' recommendations.

G1

Shareholder structure (in %)

BlackRock	9.97
MFS	9.29
AXA S.A.	2.99
BNP Paribas Asset Management	2.77
Norges Bank	2.66
Other free float	72.32

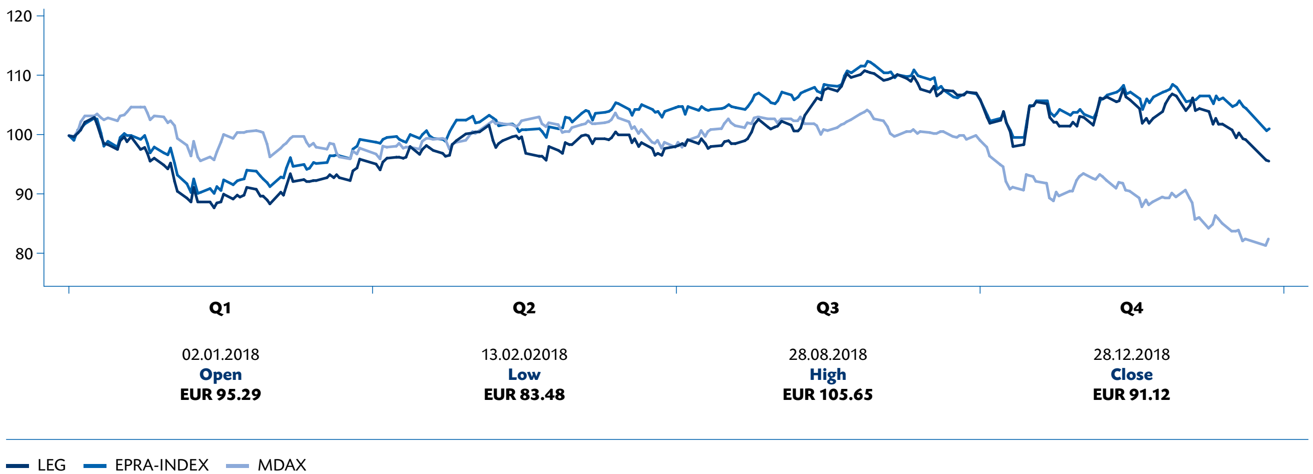
Investor Relations Work Wins Awards Again

LEG's clear and transparent communication was again rewarded by the capital market. The IR team took second place among MDAX companies for the German Investor Relations Award 2018, presided over by Extel, Wirtschaftswoche and IR association DIRK. At the same time, the Head of IR was individually ranked as the number one MDAX IR manager.

The prestigious EPRA Gold Award was bestowed by the European Public Real Estate Association for the quality of financial reporting.

G2

Share price development



Share Price 2018 indexed to 100

EPRA Key Figures

With more than 250 members, including LEG Immobilien AG, EPRA (European Public Real Estate Association) represents the listed real estate industry in Europe. EPRA strives to establish best practices in accounting, reporting and corporate governance, to provide high-quality information to investors.

Transparent and fair reporting form the basis for LEG's communications with the capital market. In light of this, LEG also actively supports the initiative of the sector association of EPRA to harmonise key financial figures. The table below provides an overview of the key figures in accordance with EPRA's Best Practice Recommendations. Further information can be found in the management report of this annual report. For a definition of the key figures please see the glossary of this annual report.

T3

EPRA key figures

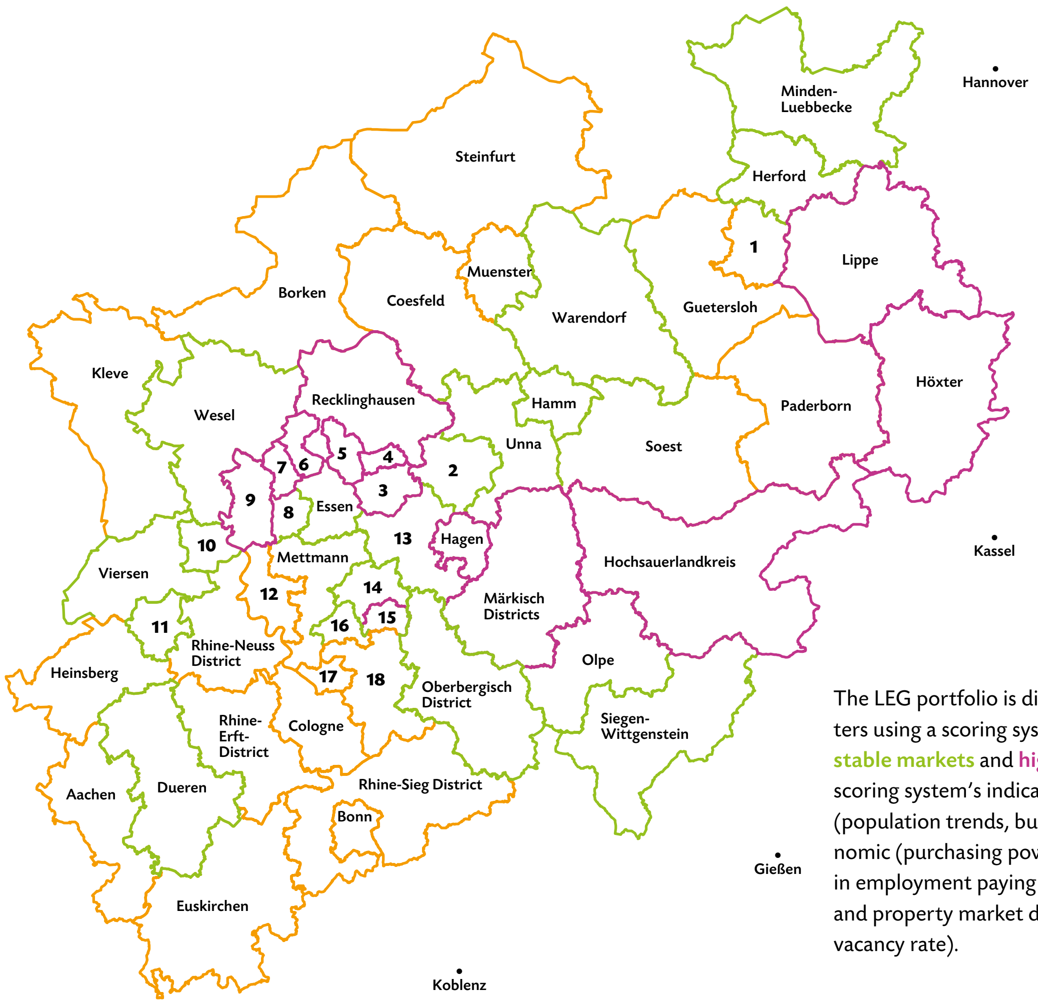
		2018	2017	Details
EPRA Vacancy (like-for-like)	%	3.3	3.3	See page 49
EPRA Earnings per share	€	4.01	3.90	See page 129
EPRA NAV	€ millions	6,666.4	5,805.7	See page 57
EPRA NAV per share	€	96.86	84.58	See page 57
Pro-forma NAV after simulated conversion	€ millions	6,428.0	5,553.6	See page 57
Pro-forma NAV after simulated conversion per share	€	93.40	80.90	See page 57
EPRA NNNAV	€ millions	5,266.4	4,434.8	See page 57
EPRA NAV per share	€	76.52	64.61	See page 57
EPRA Net Initial Yield	%	4.3	4.5	See page 51
EPRA „topped-up" Net Initial Yield	%	4.3	4.5	See page 51
EPRA Cost Ratio incl. direct vacancy costs	%	27.1	27.2	See page 50
EPRA Cost Ratio excl. direct vacancy costs	%	24.9	25.2	See page 50
EPRA Cost Ratio, adjusted by maintenance incl. direct vacancy costs	%	17.7	17.6	See page 50
EPRA Cost Ratio, adjusted by maintenance excl. direct vacancy costs	%	15.6	15.5	See page 50

Portfolio

LEG's portfolio is spread across around 170 locations in North Rhine-Westphalia. As at 31 December 2018, it included 133,969 residential units, 1,267 commercial units and 33,855 garages and parking spaces. The average apartment size is 64 square metres with three rooms. Each building has an average of seven residential units split over three floors.

G3

LEG in North Rhine-Westphalia by market segment



1 Bielefeld
2 Dortmund
3 Bochum
4 Herne
5 Gelsenkirchen
6 Bottrop
7 Oberhausen
8 Mühlheim
9 Duisburg
10 Krefeld
11 Moenchengladbach
12 Dusseldorf
13 Ennepe-Ruhr District
14 Wuppertal
15 Remscheid
16 Solingen
17 Leverkusen
18 Rheinisch-Bergisch District

The LEG portfolio is divided into three market clusters using a scoring system: high-growth markets, stable markets and higher-yielding markets. The scoring system's indicators are based on demographic (population trends, budget forecasts), socio-economic (purchasing power, trend of number of people in employment paying social security contributions) and property market data (asking rents, market vacancy rate).

Operational Development

LEG's property portfolio saw a net increase of 3,884 property units in the 2018 financial year, bringing the total to 133,969. This includes acquisitions made in 2018 (3,963 residential units) and the transfer of a portfolio that had already been acquired in 2017 (304 residential units). This was offset by sales in connection with individual privatisations and other measures (units being combined).

Existing rents on a like-for-like basis amounted to EUR 5.67 per square metre as at 31 December 2018, up 3.0 % against the previous year's reporting date.

In the free-financed segment, which accounts for around 74 % of the portfolio, comparable average rents rose sharply by 3.9 % to EUR 6.03 per square metre. The most marked increase was seen in the high-growth markets, where rents climbed 4.3 % to EUR 6.95 per square metre (like-for-like). Average rents also jumped up in the stable markets, rising 3.8 % to EUR 5.65 per square metre (like-for-like). A rent increase of 3.4 % to EUR 5.49 per square metre (like-for-like) was achieved in the higher-yielding markets.

There was no regular cost rent adjustment in the rent-restricted segment in 2018. Average rent as at 31 December 2018 therefore saw only a slight upturn on the figure for the previous year, increasing 0.4 % to EUR 4.77 per square metre.

The EPRA vacancy rate on a like-for-like basis stood at 3.3 % at the end of the year, the same level as the previous year. The occupancy rate for portfolios in the high-growth markets was very high at the end of 2018 at 98.0 % (like-for-like). The stable markets also once again achieved a high occupancy rate (97.0 % like-for-like), up 20 basis points on the previous year. At LEG's largest location, in Dortmund, the vacancy rate continued to fall against the level at the end of the previous year, dropping to 2.2% (like-for-like). In Essen, the vacancy rate also shrunk substantially to 2.0 % (like-for-like). Higher-yielding markets showed a stable development with an occupancy rate of 94.3 % (like-for-like).

Value Development

The following table shows the distribution of assets by market segment. The rental yield on the portfolio based on in-place rents is 5.5 % (rent multiplier: 18.0). The valuation of the residential portfolio corresponds to an EPRA net initial yield of 4.3 %.

T4

Portfolio segments – top 3 locations

	31 December 2018					31 December 2017						
	Number of LEG apartments	Share of LEG-portfolio in %	Living space in sqm	In-place rent €/sqm	EPRA vacancy rate in %	Number of LEG apartments	Share of LEG-portfolio in %	Living space in sqm	In-place rent €/sqm	EPRA vacancy rate in %	Change in-place rent % like-for-like	Change (basis points) vacancy rate like-for-like
High-growth markets	**41,423**	**30.9**	**2,744,665**	**6.36**	**2.0**	**41,000**	**31.5**	**2,715,078**	**6.15**	**1.7**	**3.4**	**30**
District of Mettmann	8,492	6.3	590,392	6.43	1.4	8,410	6.5	585,313	6.20	1.4	3.7	10
Münster	6,125	4.6	406,757	6.61	0.7	6,074	4.7	403,337	6.44	0.3	1.9	30
Dusseldorf	5,307	4.0	344,476	7.69	4.5	5,183	4.0	336,885	7.42	4.9	3.5	– 50
Other locations	21,499	16.0	1,403,039	5.94	1.9	21,333	16.4	1,389,543	5.75	1.4	3.5	60
Stable markets	**48,965**	**36.5**	**3,143,260**	**5.34**	**3.1**	**47,650**	**36.6**	**3,063,398**	**5.20**	**3.5**	**2.8**	**– 20**
Dortmund	13,596	10.1	889,921	5.17	2.3	13,406	10.3	876,192	5.05	2.8	2.5	– 30
Moenchengladbach	6,444	4.8	408,347	5.68	1.9	6,447	5.0	408,462	5.48	1.9	3.7	10
Hamm	4,347	3.2	261,240	5.18	2.5	4,167	3.2	250,634	5.03	2.8	2.7	– 30
Other locations	24,578	18.3	1,583,752	5.37	4.0	23,630	18.2	1,528,110	5.25	4.4	2.8	– 20
Higher yielding markets	**41,731**	**31.1**	**2,558,054**	**5.23**	**5.9**	**39,559**	**30.4**	**2,413,440**	**5.11**	**6.0**	**2.9**	**0**
District of Recklinghausen	9,880	7.4	619,338	5.08	5.6	9,230	7.1	574,357	5.01	6.2	2.1	20
Duisburg	6,907	5.2	429,217	5.50	4.6	6,571	5.1	408,345	5.33	3.2	3.7	100
Maerkisch District	4,567	3.4	281,419	5.16	3.0	4,567	3.5	281,419	5.01	3.3	3.1	– 50
Other locations	20,377	15.2	1,228,079	5.23	7.1	19,191	14.8	1,149,319	5.11	7.6	2.9	– 40
Outside NRW	**1,850**	**1.4**	**124,044**	**6.09**	**2.7**	**1,876**	**1.4**	**125,956**	**5.86**	**0.9**	**3.6**	**200**
Total	**133,969**	**100.0**	**8,570,023**	**5.65**	**3.5**	**130,085**	**100.0**	**8,317,872**	**5.50**	**3.5**	**3.0**	**0**

T5

LEG Portfolio

		High-growth markets		Stable markets		Higher yielding markets		Outside NRW		Total	
		31.12.2018	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Subsidised residential units											
Units		11,998	12,592	14,252	13,896	8,616	8,314	98	112	34,964	34,914
Area	qm	836,261	885,096	965,848	940,250	569,493	545,060	7,733	8,910	2,379,335	2,379,316
In-place rent	€/qm	5.03	4.99	4.70	4.67	4.49	4.45	4.56	4.58	4.77	4.74
EPRA vacancy rate	%	0.8	0.6	2.1	2.2	4.4	4.1	0.0	0.0	2.1	2.0
Free-financed residential units											
Units		29,425	28,408	34,713	33,754	33,115	31,245	1,752	1,764	99,005	95,171
Area	qm	1,908,404	1,829,982	2,177,412	2,123,149	1,988,561	1,868,380	116,311	117,046	6,190,688	5,938,556
In-place rent	€/qm	6.96	6.72	5.63	5.44	5.45	5.31	6.19	5.96	6.00	5.81
EPRA vacancy rate	%	2.4	2.1	3.5	3.9	6.2	6.4	2.9	1.0	3.8	4.0
Total residential units											
Units		41,423	41,000	48,965	47,650	41,731	39,559	1,850	1,876	133,969	130,085
Area	qm	2,744,665	2,715,078	3,143,260	3,063,398	2,558,054	2,413,440	124,044	125,956	8,570,023	8,317,872
In-place rent	€/qm	6.36	6.15	5.34	5.20	5.23	5.11	6.09	5.86	5.65	5.50
EPRA vacancy rate	%	2.0	1.7	3.1	3.5	5.9	6.0	2.7	0.9	3.5	3.5
Total commercial											
Units										1,267	1,256
Area	sqm									214,927	209,702
Total parking											
Units										33,855	32,629
Total other											
Units										2,510	2,333

Investing Activities

EUR 252.7 million was spent on maintenance and value-adding capital investments in the 2018 financial year (previous year: EUR 187.5 million). On a per square metre basis, investment rose by around 31 % to almost EUR 30 per square metre (previous year: around EUR 22 per square metre). EUR 178.9 million (previous year: EUR 115.5 million) of total investment related to capital expenditure aimed at increasing value, while maintenance recognised as an expense amounted to EUR 73.8 million (previous year: EUR 72.0 million). The capitalisation rate was therefore 70.8 % (previous year: 61.6 %).

The rise in the capitalisation rate reflects the expansion in LEG's strategic investments after the company launched an extended, five-year modernisation programme with a volume of EUR 360 million in 2017. Work continued on these measures in the year under review, with a focus on the five cities of Dortmund, Monheim, Muenster, Moenchengladbach and Cologne, where LEG targeted its investment towards energy-efficient façades and roof refurbishments, built-on balconies, new windows and improving the residential surroundings.

T6

Market segments

31.12.2018	Residential units	Residential assets in € million[1]	Share residential assets in %	Value/sqm in €	In-place rent multiplier	Commercial/other assets in € million[2]	Total assets in € million
High-growth markets	**41,423**	**4,604**	**45**	**1,675**	**22.1x**	**219**	**4,824**
District of Mettmann	8,492	945	9	1,603	20.8x	68	1,013
Münster	6,125	812	8	1,998	25.1x	44	856
Dusseldorf	5,307	729	7	2,119	23.5x	40	769
Other locations	21,499	2,118	21	1,504	21.2x	68	2,185
Stable markets	**48,965**	**3,298**	**32**	**1,048**	**16.6x**	**119**	**3,417**
Dortmund	13,596	1,042	10	1,165	19.0x	44	1,086
Moenchengladbach	6,444	448	4	1,095	16.0x	12	460
Hamm	4,347	245	2	936	15.0x	4	249
Other locations	24,578	1,563	15	988	15.6x	59	1,622
Higher yielding markets	**41,731**	**2,215**	**22**	**864**	**14.4x**	**64**	**2,280**
District of Recklinghausen	9,880	527	5	845	14.6x	18	545
Duisburg	6,907	422	4	996	15.5x	23	445
Maerkisch District	4,567	215	2	763	12.6x	2	217
Other locations	20,377	1,051	10	851	14.4x	21	1,072
Subtotal NRW	**132,119**	**10,118**	**98**	**1,196**	**18.0x**	**403**	**10,521**
Portfolio outside NRW	1,850	165	2	1,323	18.4x	2	167
Total portfolio	**133,969**	**10,282**	**100**	**1,198**	**18.0x**	**405**	**10,687**
Prepayments for property held as an investment property							2
Leasehold + land values							37
Inventories (IAS 2)							3
Owner-occupied property (IAS 16)							23
Finance lease (outside property valuation)							3
Total balance sheet[3]							**10,755**

[1] Excluding 372 residential units in commercial buildings; including 462 commercial and other units in mixed residential assets.
[2] Excluding 462 commercial units in mixed residential assets; including 372 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] Thereof assets held for sale EUR 20.3 million and owner-occupied property (IAS 16) EUR 22.7 million.

Report of the Supervisory Board

MICHAEL ZIMMER
Chairman of the Supervisory Board

Dear Shareholders,

2018 was not just another successful financial year for LEG, but it was also defined by changes that provided LEG with fresh stimulus.

The relevant key performance indicators are within the target corridor announced to the capital market. This shows that LEG's strategy is on the right track, as it stands for an attractive performance even in a more challenging market setting. The capital market is honouring this with a stable share price.

Day-to-day operations continue to focus on increasing service quality for our customers. The company continued to pursue its housing strategy in the 2018 financial year with the aim of generating high customer and employee satisfaction as well as further efficiency and profitability enhancements. The Supervisory Board sees the ongoing professionalisation of operational processes as one of the company's main tasks.

In the 2018 financial year as well, despite the scarcity of the offers available on the market, which LEG often also found economically unattractive, the company again succeeded in expanding its portfolio by acquiring 3,963 residential units in LEG's "Greater NRW" focus market. LEG's close and continuous observation of the market allows it to identify profitable and value-adding opportunities and test their compatibility with the LEG platform. LEG still has a balanced portfolio that it optimises with targeted sales in addition to value-adding acquisitions. The quality of the portfolio is also continuously improved by the extensive strategic investment programme and active new construction.

In light of the evolving challenges, the Management Board and the Supervisory Board, among other things, delivered fresh stimulus for the growth strategy with the implementation of the new position of Chief Digital Officer. Thus, LEG is again focusing more intensively on growth through process efficiency, digitisation and innovation and strengthens its positioning as an innovative rental and service provider.

In the 2018 financial year, particularly against the backdrop of a more volatile market environment and more stringent regulatory conditions, the Supervisory Board and the Management Board have thoroughly discussed the strategic development of the company. The Supervisory Board closely monitors the company's growth initiatives. The processes for LEG's strategic options are tracked by the Management Board and the Supervisory Board, and deliberated over rigorously at the meetings of the committees.

The 2018 financial year was also defined by the ongoing reorganisation of operations. The Management Board and the Supervisory Board worked together closely and, as in previous years, comprehensively and continually discussed strategic, economic and financial matters, in addition to the latest business developments. The Chairman of the Supervisory Board is at the Management Board's disposal at all times.

In addition to their regular meetings, the Management Board and the Supervisory Board also held extraordinary committee meetings and a conference call in 2018. Reporting by the Management Board on key issues is a fundamental element of committee meetings and conference calls.

In view of the changes in the Management Board, the strategy conference of the Supervisory Board originally scheduled for November 2018 was postponed to 2019 so that the strategic input of the new member of the Management Board can also be taken into account. Furthermore, the Supervisory Board dealt with the further optimisation of operations at its extraordinary meetings in August and October 2018 in particular.

As in previous years, the members of the Supervisory Board were always at the company's disposal in the 2018 financial year. This is also reflected in the high attendance rate of the individual committee meetings.

There were four scheduled meetings and four extraordinary meetings of the Supervisory Board in the 2018 financial year. Attendance at committee meetings is mandatory for the Management Board; the Supervisory Board and the Executive Committee also met twice and three times respectively without the Management Board in attendance, especially when debating personnel matters of the Management Board. With respect to the newly created role of CDO, the Supervisory Board has executed a structured personnel selection process, having been supported by a personnel consultant.

In addition to the Management Board, LEG representatives, e. g. the Head of Accounting, the Head of Internal Audit and the Head of Legal, regularly took part in the meetings of the Supervisory Board. The Supervisory Board also invited external consultants to attend committee meetings as necessary. Examples here were the mandatory participation of the auditor PwC in the meeting to adopt the annual financial statements or the participation of the property assessor, CBRE. Furthermore, the Supervisory Board engaged a law firm that advised the Supervisory Board on key decisions.

The composition of the Supervisory Board ensures that the members of the Supervisory Board must have the necessary knowledge, abilities and specific experience to perform their duties properly. The respective expertise of the individual members of the Supervisory Board means that the Supervisory Board as a whole is professionally structured and can comprehensively fulfil its duties in the interests of the company.

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary and four extraordinary meetings in the 2018 financial year.

Seven resolutions were also adopted by written procedure. The matters to which these pertained had been covered in detail at Supervisory Board meetings beforehand, but the Board had not been ready to make a decision at the time of the meeting. It was agreed by the Supervisory Board that the corresponding resolutions would be passed by way of written procedure.

All the members of the Supervisory Board attended at least half the meetings.

T7

Supervisory board meeting attendance 2018

Supervisory Board Member	07.03.2018	16.05.2018 (extraord.)	17.05.2018 (extraord.)	30.05.2018	29.08.2018 (extraord.)	27.09.2018	30.10.2018 (extraord.)	29.11.2018
Michael Zimmer (Chairman)	X	X	X	X	X	X	X	O
Stefan Jütte (Deputy Chairman)	X	X	X	X	O	X	X	X
Natalie Hayday	X	X	X	X	X	X	X	O
Dr Johannes Ludewig	X	X	X	X	X	X	X	O
Dr Claus Nolting	X	X	X	X	X	X	X	X
Dr Jochen Scharpe	X	X	X	X	X	X	X	X

X = attendence; O = no attendence

T8

Audit committee meeting attendance 2018

Audit Committee Member	06.03.2018	29.05.2018	26.09.2018	28.11.2018
Stefan Jütte (Chairman)	X	X	X	X
Dr Jochen Scharpe (Deputy Chairman)	X	X	X	X
Natalie Hayday	X	X	X	X

X = attendance

T9

Executive committee meeting attendance 2018

Executive Committee Member	29.01.2018	30.05.2018	27.08.2018	30.10.2018
Michael Zimmer (Chairman)	X	X	X	X
Stefan Jütte (Deputy Chairman)	X	X	X	X
Dr Johannes Ludewig	X	X	X	X

X = attendance

The key subjects discussed by the meeting of the Supervisory Board on 7 March 2018 were:

- The adoption of the 2017 annual financial statements, including the management report, and the approval of the 2017 consolidated financial statements, including the Group management report, following a detailed examination and discussion, on the recommendation of the Audit Committee.

- The audit of the 2017 sustainability report was an item on the agenda for the first time. The Supervisory Board approved the content of the sustainability report on the recommendation of the Audit Committee.

- The Supervisory Board conferred over the effects of new IFRS standards on 2018 and 2019.

- In preparation for the sixth Annual General Meeting, the Supervisory Board again elected Mr Stefan Jütte as the Deputy Chairman of the Annual General Meeting for the event of the absence of the Chairman of the Supervisory Board. The Supervisory Board approved the matters to be resolved for the agenda of the forthcoming Annual General Meeting. In addition to the set items of the agenda, such as the appointment of the auditor for 2018, matters to be resolved included the Supervisory Board elections, the adjustment of Supervisory Board remuneration, the approval of the Management Board remuneration system and resolutions on capital and profit transfers. The approval of these items of the agenda was preceded by the necessary discussion by the body.

- The Supervisory Board recommended that the Annual General Meeting adopt the report of the Supervisory Board for the 2017 financial year; it also approved the annual report for 2017, including the joint report by the Management Board and the Supervisory Board on corporate governance in accordance with item 3.10 of the German Corporate Governance Code.

- The Supervisory Board examined and determined the Management Board's performance in 2017 as regards the targets for its short-term and long-term incentives. It examined this on the basis of PwC's confirmation of the mathematical accuracy of calculations for the short-term incentive and on the basis of actuarial opinions for the long-term incentive programme. Including a discretionary factor determined by the Supervisory Board, the bonus claims were 100 % achieved. This is described in detail in the LEG Immobilien AG Remuneration Report. A resolution on the adjustment of Management Board remuneration was also prepared.

- The other main points of the meeting of the Supervisory Board on 7 March 2018 were the resolution on the updated 2018 sales programme and the acknowledgement of the status of acquisition projects, the "Tenant Survey" concept and the "Strategic Modernisation Programme" concept.

The Management Board and the Supervisory Board used the extraordinary strategy meeting on 16 May 2018 to determine a common understanding on LEG's strategic focus in an environment of a more mature sector and therefore declining growth rates.

Following the Annual General Meeting of LEG Immobilien AG on 17 May 2018, at which Supervisory Board elections were held, the Supervisory Board elected its Chairman and Deputy Chairman in an extraordinary meeting and voted on the Executive Committee and the Audit Committee.

The main topics discussed at the meeting of the Supervisory Board on 30 May 2018 were:

- The detailed reports of the committees, the discussion of the Q1-2018 quarterly report and the Supervisory Board reporting as at 31 March 2018.
- The Supervisory Board also intensively discussed the financing strategy update.

- The Supervisory Board also acknowledged the report on the duty to implement safety precautions in the 2017 financial year.

The extraordinary meeting of the Supervisory Board on 29 August 2018 focused on the acknowledgement of the current operating performance of the company and the reorganisation of the Management Board, together with the associated personnel changes.

The meeting of the Supervisory Board on 27 September 2018 mainly dealt with:

- The 2018 half-year report, Supervisory Board reporting, the risk inventory report and the development of operating performance.

- In addition to the reports of the committees and the status report on the current acquisition options, the Supervisory Board discussed the results of capital market monitoring from a strategic perspective at the meeting.

- Furthermore, the Supervisory Board resolved to amend the Rules of Procedure for the Management Board at the meeting.

- Moreover, the Supervisory Board resolved dropping the the discretionary decision for the Management Board's long-term incentive from financial year 2018.

- The meeting was also used to prepare the agenda items for the extraordinary meeting of the Supervisory Board on 30 October 2018.

The extraordinary meeting of the Supervisory Board on 30 October 2018 intensively discussed the key points of the III/2018 forecast and the business plan for 2019 to 2023 in preparation for the public communication of the outlook for 2019 and 2020 with the reporting on the third quarter of 2018.

The key subjects discussed at the final meeting of the Supervisory Board in the 2018 financial year on 29 November 2018 were:

- The analysis of the Q3-2018 quarterly report, Supervisory Board reporting, the approval of business planning for 2019 and the acknowledgement of business planning for the years 2020 to 2023, which had been discussed at length by the Audit Committee on 28 November 2018.
- In addition to the approval of the annual declaration of compliance by the Supervisory Board and the Management Board in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act), the meeting also deliberated over the presentation of the operational target structure and the reports of the committees.
- Furthermore, the Supervisory Board resolved the 2019 long-term incentive targets for the Management Board for performance period 1 (2019 to 2020), performance period 2 (2019 to 2021) and performance period 3 (2020 to 2022), which had already been approved by the Executive Committee by way of written procedure in November 2018.

Meetings of the Committees of the Supervisory Board

Executive Committee

- The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte, and Dr Johannes Ludewig. Dr Jochen Scharpe has been elected as a deputy member. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. The Executive Committee met four times in the 2018 financial year. Please refer to the table on > page 26 of the report for details of member attendance.
- The Executive Committee discussed matters in a number of conference calls in addition to its regular meetings.
- The main issues debated by the Executive Committee in 2018 were the strategic focus of the company and the reorganisation of the Management Board.
- At its meetings and by way of written procedure, the Executive Committee discussed the acquisition of residential portfolios, the reorganisation of the Management Board and the future composition of the Management Board, the adjustment of Management Board remuneration and the secondary activities of members of the Management Board. Furthermore, the Executive Committee debated the 2019 long-term incentive targets and a corresponding resolution recommendation for the Supervisory Board. Overall, the Executive Committee made proposals for decisions on the matters discussed by the Supervisory Board.
- The Executive Committee advocated that the Supervisory Board approve the acquisition of 3,963 residential units in total in 2018.
- The discussion of capital market developments relevant for LEG is a fixed item on the agenda for Executive Committee meetings.

Nomination Committee

- The Nomination Committee meets as required and proposes suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The Nomination Committee consists of members of the Executive Committee. There was only one meeting in the 2018 reporting year, on 29 January 2018, at which the only item on the agenda was the re-election of the members of the Supervisory Board. The Nomination Committee issued its recommendations on the re-election of the current members of the Supervisory Board.

Audit Committee

The Audit Committee consists of three members: Mr Stefan Jütte (Chairman), Dr Jochen Scharpe (Deputy Chairman) and Ms Natalie Hayday.

The Audit Committee met four times in the 2018 financial year. Please refer to the table on > page 26 of the report for details of member attendance. The meetings of the Audit Committee mainly focused on the discussion of the 2017 annual financial statements and annual report, including the management report, (separate financial statements) and the 2017 consolidated financial statements and Group annual report, including the Group management report, in addition to business planning for 2019 to 2023. Other key items at the meetings of the Audit Committee were the analysis and consideration of the reports of the Management Board on the quarterly figures, the internal key performance indicators (“KPI tree”), the financing strategy and, for the first time, the sustainability report of the LEG Group. Furthermore, at its meetings the Audit Committee discussed the updated sales programme, the audit planning for 2018, and the report of the Management Board in accordance with section 107(3) AktG. The Audit Committee also regularly conferred on the risk reports and the risk inventory of the LEG Group.

In two resolutions by written procedure, the Audit Committee resolved to approve the increase in LEG Immobilien AG’s distribution ratio from 65 % to 70 % of FFO I, to refinance a tranche of EUR 103 million for GWN and to increase the financing volume from EUR 250 million to EUR 280 million for the long-term financing of two acquisition packages (including the sub-portfolio acquired from Vivawest) and for planned investment in existing properties.

The committees continuously report to the Supervisory Board on their work at the meetings of the Supervisory Board.

Corporate Governance

Working with the Management Board, in November 2018 the Supervisory Board discussed the updated version of the declaration of compliance in accordance with section 161(1) AktG that was issued in the previous year and issued this. The updated declaration has been made permanently available on the company's website.

Audit of annual and Consolidated financial statements

The Management Board prepared the annual (separate) financial statements and management report for the 2017 financial year in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements and Group management report in accordance with the provisions of the International Financial Reporting Standards (IFRS), as endorsed in the European Union, and the additional commercial regulations of section 315a HGB. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) was appointed as the auditor of the annual and consolidated financial statements for the 2018 financial year. PwC audited the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report, for the 2017 financial year and issued an unqualified audit opinion for each.

A review of the risk management and monitoring system is included in the audit. In the report on the risk management and monitoring system of the Management Board, the auditor commented on risks jeopardising the continued existence of the company as a going concern. The auditor considers that the risk management and monitoring system is suitable for the early detection of developments that could threaten the continuation of the company.

The Supervisory Board received the audited and certified annual financial statements and the management report for the 2017 financial year in good time. The Supervisory Board conducted its own audit, taking into account the report of the auditor and the report of the Chairman of the Audit Committee on the preliminary audit of the annual financial statements. The same applies to the consolidated financial statements, the Group management report and the proposal of the Management Board for the appropriation of earnings.

At the meeting of the Audit Committee on 6 March 2018 and at the meeting of the Supervisory Board on 7 March 2018, representatives for the auditor explained the results of the audit as a whole and the individual areas of audit focus. There were no objections. The auditors found no facts during their audit that contradict the declaration of compliance. In the committee meetings, the Audit Committee and the Supervisory Board of LEG Immobilien AG discussed the separate and consolidated financial statements, heard reports from representatives for the auditor on its independence and acknowledged the corresponding independence report.

The auditors expressly stated that there were no circumstances giving rise to concern over their impartiality. There were also no objections after a thorough examination of all documents by the Supervisory Board. The Supervisory Board approved the results of the audit.

The Supervisory Board approved the (separate) financial statements and management report for 2017 and the consolidated financial statements and Group management report for 2017 in accordance with the proposal of the Audit Committee on 7 March 2018. The annual financial statements for 2017 were therefore adopted and the consolidated financial statements for 2017 were approved.

The Supervisory Board reviewed the proposal of the Management Board for the appropriation of the unappropriated surplus, taking into account in particular the liquidity of the company and its financial and investment planning. After this review, the Supervisory Board endorsed the Management Board's proposal to distribute EUR 192,092,082.40 as a dividend (EUR 3.04 per share).

The remaining unappropriated surplus of EUR 1,197,081,245.57 was transferred to retained earnings.

At its meeting on 7 March 2019, after in-depth examination and discussion, the Supervisory Board adopted the annual financial statements for 2018, including the management report, and approved the consolidated financial statements for 2018, including the Group management report, on the recommendation of the Audit Committee.

The Management Board and the Supervisory Board

The duties and responsibilities of members of the Management Board of the company were restructured in the 2018 financial year. In the context of this Management Board reorganisation, Mr Holger Hentschel, member of the Management Board and Chief Operating Officer of LEG Immobilien AG, left the company on the best possible terms by mutual arrangement with the Supervisory Board as at 30 September 2018. Responsibility for operating activities was assumed by Mr Thomas Hegel, CEO of LEG Immobilien AG.

As at 1 January 2019, Mr Lars von Lackum joined the Management Board in the newly created role of Chief Digital Officer. Since 1 January 2019, he has been in charge of areas that were previously the responsibility of the CEO, namely corporate development, innovation management, IT and the management of LEG Solution GmbH (company for winding up old projects and implementing new construction projects) and EnergieServicePlus GmbH.

By reorganising the Management Board, the Supervisory Board wishes to maintain continuity while at the same time generating additional stimulus for LEG's business.

The Supervisory Board would like to thank the shareholders for their trust in the company. Since the IPO in 2013, the capital market has responded positively to LEG's strategy, which – as shown in the past year – is adapting to changing circumstances.

In turn, the Supervisory Board also wishes to the thank the Management Board and the staff for their good performance in a challenging market setting.

Dusseldorf, 6 March 2019

On behalf of the Supervisory Board of LEG Immobilien AG

MICHAEL ZIMMER
Chairman of the Supervisory Board

Corporate Governance

The trust of investors, employees, customers and the public in LEG Immobilien AG is gained and maintained by responsible and value-based management and control of the company geared to long-term business success. Respecting the interests of shareholders and employees, transparency and responsibility in business decisions and the appropriate handling of risk are therefore core elements of our corporate governance and the basis for the work of the Supervisory Board, the Management Board and the employees of LEG Immobilien AG.

Below, the Management Board, together with the Supervisory Board, reports on corporate governance at LEG Immobilien AG. Further information on this can be found in the corporate governance declaration > page 82 of the annual report; this information is also part of our corporate governance reporting.

Compliance with the Recommendations of the German Corporate Governance Code

LEG Immobilien AG complies with the currently applicable recommendations of the German Corporate Governance Code as amended on 7 February 2017 ("Code").

The Management Board and Supervisory Board have discussed compliance with the recommendations of the Code and, in November 2018, issued a declaration of compliance in accordance with section 161(1) of the Aktiengesetz (AktG – German Stock Corporation Act). The declaration of compliance issued in the 2018 financial year has been printed in the corporate governance declaration > page 82 of the annual report.

LEG Immobilien AG also complies with the suggestions of the Code, which can be deviated from without disclosure in the declaration of compliance, with the following exceptions:

- Item 2.3.3 of the Code suggests that the company should make it possible for shareholders to monitor the Annual General Meeting using modern communication media (e.g. the Internet). LEG Immobilien AG has examined the technical cost and effort this would entail and has come to the conclusion that this would be disproportionate to the information benefit for shareholders, particularly since all speeches by the Management Board are published on the company's website.
- In accordance with item 3.7(3) of the Code, in the event of a takeover bid, the Management Board should convene an extraordinary general meeting at which shareholders discuss the takeover bid and possibly decide on corporate action. It is questionable as to whether the organisational effort of convening a general meeting would be justified if no corporate action was to be resolved. Accordingly, the Management Board reserves the right to convene an extraordinary general meeting only if a resolution is planned.

Objectives for the Composition of the Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members, all of whom are elected by the Annual General Meeting as shareholder representatives. The mandates of the current members of the Supervisory Board – with the exception of Dr Claus Nolting – ended after the Annual General Meeting on May, 17, 2018. Dr Claus Nolting's mandate ends after the Annual General Meeting that adopts the resolution on official approval of his actions for the 2021 financial year. Following the proposal of the Supervisory Board, the Annual General Meeting decided to appoint Natalie Hayday, Stefan Jütte, Dr Johannes Ludewig, Dr Jochen Scharpe, and Michael Zimmer as members of the Supervisory Board again, effective after the end of the Annual General Meeting. The Appointment was executed in accordance with section 8.2 of LEG Immobilien AG's articles of association for the duration of one term until the end of the Annual General Meeting that passes the approval of the actions of the Supervisory Board in the financial year 2022.

In accordance with item 5.4.1(2) of the recommendations of the German Corporate Governance Code (GCGC), the Supervisory Board resolved the following objectives for its composition on 23 April 2013, last modified on 28 September 2017. In this context, the Supervisory Board meeting on 28 September 2017 adopted a competence profile devised in 2017 as an additional target:

1. Fulfilment of the competence profile

On the basis of their knowledge, skills and professional experience, the members of the Supervisory Board should be able to perform the duties of a Supervisory Board member of a listed property company with a focus on residential properties. In particular, this includes knowledge of the property industry in addition to general requirements expected of a correspondingly responsible position, such as teamwork, integrity and an awareness of responsibility and sustainability.

Furthermore, the Supervisory Board has designated special areas of competence, which are met by the Supervisory Board as a whole through individual members' key areas of competence. These special areas of competence are the key issues derived from the business activities of LEG Immobilien AG as a listed property company. In particular, key competence in these topics is acquired through many years of experience in and a special commitment to the respective field, and goes far beyond general knowledge and capabilities in these areas.

Each special area of competence should be covered by at least one Supervisory Board member. However, in order to benefit from specific expertise and to allow the Supervisory Board to function efficiently, it is not intended that each member of the Supervisory Board covers the majority of the special areas of competence.

When selecting the members of Supervisory Board committees in particular, care must be taken to ensure that the respective committee has a member specialising in the subject matter of the committee at all times.

The special areas of competence that should be fulfilled by the Supervisory Board as a whole include special expertise in the following areas:

Business management
As a listed company whose shareholders are mainly institutional investors, the company is committed to increasing its enterprise value by serving the expectations of its key stakeholders, namely its shareholders, tenants and employees. Efficient management and the optimisation of these requirements demand special experience of managing companies or heading up complex organisations.

Housing industry
LEG Immobilien AG focuses on the management of residential property. Knowledge of the specifics of managing large residential portfolios and exploiting the residential value chain are of great importance for the qualified oversight and guidance of the management of one of Germany's largest property holding companies.

Property transactions
Growth through acquisitions and the integration of property portfolios are a major cornerstone of our corporate strategy. However, value is generated by such growth only if the risk/reward profile is attractive relative to the consideration. Detailed experience of property transactions is helpful in assessing and evaluating the corresponding purchase and sales opportunities and their structures.

Bank and capital market financing
Against the background of the growth strategy and safeguarding liquidity in the long term, the financing of the company with equity and debt is a matter of crucial importance. Capital discipline and efficiency are the cornerstones of corporate strategy, together with a defensive financing profile. Banking and capital market financing expertise is required in order to make the best possible use of the extensive range of capital market instruments and bank financing available.

Finance
Efficient oversight demands an in-depth knowledge of the analysis of financial reports and controlling assessments. The ability to analyse and scrutinise risks, to be sensitive to and have an affinity for the significance of effective compliance structures can be applied more profitably with appropriate experience and the knowledge acquired.

Management and regulation
"Housing" fulfils a basic need. As a major provider of residential housing, LEG takes the responsibility this entails seriously. LEG therefore also serves its local municipalities as a partner to help solve housing shortages. Furthermore, defining rent levels in particular is subject to regulatory requirements that are constantly under discussion of potential amendment. Communication with the public sector, an understanding of the relevant perspectives and the analysis of regulatory developments are therefore highly important.

2. Fulfilment of GCGC requirements
The members of the Supervisory Board should satisfy the requirements of the German Corporate Governance Code. In particular, these include the requirements regarding the independence of the members of the Supervisory Board (5.4.2 sentence 3 GCGC: not members of governing bodies of, or exercise advisory functions at, significant competitors, 5.4.4 GCGC: not a member of the management board of the same listed company in the last two years) and their having sufficient time available (5.4.5 sentence 2 GCGC: no more than three Supervisory Board mandates at listed companies in total).

3. Independence
At least five members of the Supervisory Board must be independent as defined by item 5.4.2 sentence 2 of the GCGC, i.e. in particular they must have no business or personal relationship with LEG Immobilien AG, its executive bodies, a controlling shareholder or an affiliated company, which could give rise to a material and not merely temporary conflict of interest.

4. Diversity and participation of women
In the interests of complementary cooperation within the Supervisory Board, attention should be paid to sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience when selecting candidates. As the business activities of LEG Immobilien AG primarily concentrate on residential property in Germany, it is not necessary, in the opinion of the Supervisory Board, that the Supervisory Board has one or more members with a particular degree of international experience. Nevertheless, the Supervisory Board welcomes it if a member has an international background.

There should be at least one woman on the Supervisory Board.

5. Age limit
Only candidates younger than 75 at the time of the election should be proposed for the Supervisory Board.

6. Membership of the Supervisory Board
A member of the Supervisory Board is not usually a member for more than fifteen years (first appointment plus two re-appointments).

Implementation/fulfilment of objectives

All goals have been achieved with the current composition of the Supervisory Board. In particular, the requisite competence profile has been fulfilled. This is illustrated by the table and brief CVs below:

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Fulfilment of objectives

	Age	Member since	Appointed until (AGM)	Independence	Committee membership: Executive Committee[1]	Committee membership: Audit Committee
Michael Zimmer (Chairman.)	55	2013	2023	•	x	
Stefan Jütte (Deputy Chairman)	72	2013	2023	•	•	x
Natalie C. Hayday	42	2015	2023	•		•
Dr Johannes Ludewig	73	2013	2023	•	•	
Dr Claus Nolting	67	2016	2021	•		
Dr Jochen Scharpe	59	2013	2023	•		•

[1] Nomination Committee has the same composition as the Executive Committee.
x = Chairperson
• = Member / fulfilled

Michael Zimmer

Michael Zimmer co-founded the Corpus Sireo Group in 1995 and, as the Chairman of its management, built it into one of the largest asset management companies in Germany, with more than 500 employees and assets under management of around EUR 17 billion. In his years as the property group's CEO, Michael Zimmer has overseen corporate and property transactions with a total value of more than EUR 20 billion. This includes the sale of roughly 11,000 Deutsche Post AG apartments and 48,000 ThyssenKrupp AG apartments. In this context, alongside expert knowledge in the structuring and financing of large property transactions, Michael Zimmer also gained an extensive understanding of dealing with public agencies. Michael Zimmer gradually sold his shares to a banking syndicate in the years that followed, before leaving the company in 2009. Since leaving the Corpus Sireo Group, Michael Zimmer has successfully applied his knowledge and experience as an investor and consultant to many, mostly property-related, transactions. Michael Zimmer's philanthropic spirit is demonstrated by his role as Chairman of the Cornelius Foundation's board of trustees, which helps the children of parents suffering from addictions.

Stefan Jütte

As a long-serving board member at major German banks, Stefan Jütte has more than 20 years of experience in the responsible governance of banks. Stefan Jütte was appointed to the Board of Deutsche Postbank AG in 2000, where he was made CEO in July 2009, a position he held until he left the company in July 2012. Mr Jütte's responsibilities at Deutsche Postbank AG included corporate banking and commercial property financing. Before joining the Deutsche Postbank AG board, Stefan Jütte was with DSL Bank, Bonn, as a member of the Board from 1994 and Chairman from 1997. From 1990 he was a deputy member of the Board of Stadtsparkasse Münster/Westfalen, and went on to become a full member from 1992 to 1994. Stefan Jütte was a member of the Supervisory Board of HSH Nordbank until the end of 2018.

Natalie C. Hayday

Natalie C. Hayday acquired her extensive knowledge in investment banking, capital markets and finance while working at UBS Warburg (Investment Banking division of the Corporate Advisory Group, New York, 1997 to 1999) and GOLDMAN SACHS & CO, where she most recently held the position of Executive Director of Investment Banking in Frankfurt/Main. Natalie C. Hayday worked for BIG from 2009 to 2012, initially as a consultant to HE Sheikh H. A Al-Banawi (Chairman and CEO of BIG, Saudi Arabia) and subsequently as the Head of Business Development, Jeddah, Dubai and Frankfurt/Main. Since 2013, Natalie C. Hayday has been exercising her experience and proven expertise as a consultant, initially as a freelance consultant for capital markets and investor relations, and as an investment consultant to Obermark GmbH since 2016 and also as managing director of 7Square GmbH since 2018. Natalie C. Hayday is a member of the Supervisory Board of JOST Werke AG.

Dr Johannes Ludewig
Dr Johannes Ludewig spent many years in senior positions at the German Federal Ministry of Economics, most recently as State Secretary and Federal Government Commissioner for the New Länder, and previously in the Federal Chancellery as head of the Department of Economics, Finance and Coordination for the New Länder. During his time as the CEO of Deutsche Bahn AG (1997 to 1999) and as Executive Director of the Community of European Railway and Infrastructure Companies (2002 to 2011), he also gained valuable knowledge and experience in the field of corporate governance and government regulation in key sectors. Since 2006, Dr Johannes Ludewig has been the Chairman of the National Regulatory Control Council, responsible for federal ministry information on the follow-up costs of legislation, and advising the government on reducing bureaucracy, limiting statutory follow-up costs and digitising public administration.

Dr Claus Nolting
After studying law, Dr Claus Nolting initially became a lawyer and then worked for the HYPOVEREINSBANK Group from 1989 to 2002, where he held various board positions (member of the Board of Directors at Bayerische Vereinsbank, CEO of Bayerische Handelsbank/HVB Real Estate, member of the Board of Directors at Hypovereinsbank). Dr Claus Nolting applied and further improved his outstanding finance, capital market and property expertise acquired during this time in his next position as CEO of COREALCREDITBANK AG (formerly Allgemeine Hypothekenbank Rheinboden). Since 2015, Dr Claus Nolting has been using his expertise as Senior Advisor to the private equity firm Lone Star Germany. Dr Claus is a member of the Supervisory Boards of IKB Deutsche Industriebank AG, TLG Immobilien AG (until the end of 2018), Hamburg Trust REIM Real Estate Invest Management GmbH and Chairman of the Supervisory Board of MHB Bank.

Dr Jochen Scharpe
After studying business and earning his doctorate, Dr Jochen Scharpe was initially a Senior Manager in the corporate finance department of KPMG Peat Marwick GmbH, where he acquired his extensive knowledge in the field of finance. Since 1996 he has held prominent management positions at various companies in the property industry, including as Managing Director of Eisenbahnimmobilienmanagement GmbH (later Vivico GmbH, today CAImmo Deutschland GmbH, from 1996 to 1999) and subsequently as Managing Director of Siemens Real Estate GmbH. Since 2004, Dr Jochen Scharpe has been applying his outstanding knowledge in the fields of the property industry and transactions as a Managing Partner of AMCI GmbH and ReTurn Immobilien GmbH. Dr Jochen Scharpe is the Deputy Chairman of the Supervisory Board of FFIRE AG, a member of the Supervisory Board and Chairman of the audit committee of Instone Real Estate Group AG, and a member of the Advisory Board of Ista GmbH and H&H Holding GmbH.

Directors' Dealings

In accordance with Article 19 of the Market Abuse Regulation (MAR), the members of the Supervisory Board and the Management Board are required to immediately disclose transactions involving shares and bonds of LEG Immobilien AG or related financial instruments if the value of the transactions attributable to the member or related persons reaches or exceeds a total of EUR 5,000 within a calendar year. No such transactions were reported to LEG Immobilien AG in the 2018 financial year.

Share Programmes

LEG Immobilien AG has not currently set up any share option plans and does not currently have any similar share-based incentive systems.

Transparency

In dealing with the shareholders of the company, LEG Immobilien AG abides by the principle of comprehensive, continuous and timely information. We provide detailed documents and information, such as financial reports, current ad hoc disclosures and press releases and information on Annual General Meetings on our website www.leg.ag. The company's Articles of Association can also be found on the website.

Compliance Management System

Compliance with the law and the company's internal policies is a key management and monitoring function. LEG Immobilien AG maintains a compliance management system and, in this context, has appointed a compliance officer and an experienced external ombudsman as an additional point of contact. Please see > **page 59 of the annual report** for information on the compliance management system.

Declaration in Accordance with Section 289f HGB and 315d HGB

The corporate governance declaration in accordance with section 289f and 315d of the Handelsgesetzbuch (HGB – German Commercial Code), including the above declaration in accordance with section 161 AktG and the relevant disclosures on corporate governance practices applied in addition to the statutory requirements, is a component of the management report. > **page 82 of the annual report.**

The corporate governance report of LEG Immobilien AG, including the corporate governance declaration in accordance with section 289f and 315d HGB, can also be found on the website of LEG Immobilien AG at **www.leg.ag**

Compliance

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance management system is designed for the day-to-day business.

The main principles for conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be found on our website. As a guideline for proper conduct, it assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who can guarantee the whistleblower anonymity as far as the law allows. The information is investigated and measures are taken as appropriate.

The regular analysis of compliance risks in combination with the early recognition of significant business and litigation risks, and the corresponding countermeasures, are at the heart of the compliance system.

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system with the external ombudsman. Permanent benchmarking against other compliance management systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance management system. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor. LEG also intends to have its compliance management system certificated by the Institute for Corporate Governance in the German Real Estate Industry. The auditing process required to do so was conducted at the end of 2018.

Compliance is assigned to the Law, Structure and Organisation department, whose head reports directly to the CEO of LEG.

The Audit Committee of the Supervisory Board discusses the topic of compliance on a regular basis and reports to the Supervisory Board accordingly. In the event of urgent notification of serious cases, the Management Board and the Supervisory Board committees are promptly informed of significant developments in the area of compliance.

GROUP MANAGEMENT REPORT

3

Basic Information on the Group

G4

LEG Group structure

LEG Immobilien AG

COMPANIES WITH EMPLOYEES

e.g.:
- LEG Management GmbH
- LEG Wohnen NRW GmbH

ASSET HOLDING COMPANIES

e.g.:
- LEG NRW GmbH
- LEG Wohnen GmbH
- Ravensberger Heimstättengesellschaft mbH
- LEG Wohnungsbau Rheinland GmbH
- Ruhr-Lippe Wohnungsgesellschaft mbH
- Gladbau-Gruppe

SERVICE

- WohnServicePlus GmbH
- EnergieServicePlus GmbH
- TSP-TechnikServicePlus GmbH
- VitalServicePlus GmbH

OTHER COMPANIES

- LCS Consulting und Service GmbH
- Biomasse Heizkraftwerk Siegerland GmbH & Co. KG

> Management Board members' responsibilities
> List of shareholdings

Group Structure and legal Form

LEG Immobilien AG was formed in 2013 following the transformation of LEG Immobilien GmbH. A diagram of the Group structure of LEG Immobilien AG is shown in > figure G4.

Business Activities and Strategy

With a portfolio of around 134,000 apartments at approximately 170 locations in North Rhine-Westphalia, LEG Immobilien AG is the regional market leader as well as one of the leading residential property companies in Germany. LEG Group's core business is the management and development of its own residential portfolio. Development also includes the expansion of the portfolio through value-adding acquisitions and selective construction of new residential properties. The business model is also supplemented by the cultivation of innovative services and new income models.

Thanks to the strategic focus on the affordable segment and its deep roots in the North Rhine-Westphalia metropolitan region, LEG benefits in particular from this region's positive economic and demographic data. NRW is not just the most densely populated federal state and Germany's economic heavyweight, but also one of Europe's largest conurbations and a core region for immigration. This creates high demand for affordable living space, particularly for one-to-two-person households, the number of which is growing sharply. LEG's housing offering is precisely tailored to these needs with an average apartment size of 64 square metres and an average monthly rent of EUR 5.65 per square metre. Over 90 % the portfolio is located within the 60 km catchment area of structural growth markets, 64 % solely in the increasingly sought-after commuter regions of Dusseldorf and Cologne. Thanks to its regional presence, LEG also achieves a sustainable competitive edge in terms of property management, operating efficiency and market knowledge. With a residential portfolio reaching a critical mass, the LEG platform could be replicated in other regions.

LEG's business model is geared towards growth and customer focus, and thereby takes a sustainable, value-oriented approach that reconciles shareholder and tenant interests. This also includes the continuous improvement of internal processes and structures. The company also has a strong interest in leveraging the advantages of digitisation.

LEG's business model and the company's ongoing growth are ensured by a solid statement of financial position and a favourable, secure, long-term financing structure in the interests of all stakeholders. A low LTV of 40.7 %, an average remaining term on loans of 7.6 years and average financing costs of 1.58 % document LEG's defensive risk profile and its strong position on the financing market. LEG has had an investment grade rating (Moody's Baa1) since May 2015 and thus has access to the widest range of financing instruments.

The company's employees are another key factor in its success. LEG therefore ensures its appeal as an employer, so as to attract and retain qualified and motivated employees.

Organic growth

LEG has generated average rental growth of 2.9 % with its property portfolio since 2013. Like-for-like rent growth amounted to 3.0 % in 2018. At the same time, the vacancy rate on a like-for-like basis remained at a low level of recently 3.3%. These results were achieved on the basis of efficient and targeted capital expenditure with investments of nearly EUR 30 per square metre in the reporting year, and highlight LEG's management expertise, the quality of its portfolio and the attractiveness of its markets.

A further positive rental development is expected in the coming years, with an annual like-for-like increase of at least 3.0 %. In its free-financed portfolio, rent increases can be made as a result of rent index adjustments, when letting properties to new tenants and in connection with modernisation measures. An extended, multi-year modernisation programme started in autumn 2017, which is being carried out in line with the specific market circumstances and is subject to strictly defined return criteria. In the rent-restricted portfolio, inflationary developments can be passed on to tenants in the form of cost rent adjustments every three years and also in connection with value-adding investments. In the next ten years, rent control is set to expire for over 25,000 residential units or around 72 % of the current rent-restricted portfolio. This provides leeway for rent adjustments on properties where the rent, in some cases, is significantly below market levels.

External growth and portfolio optimisation

Depending on the market situation, LEG's property portfolio can be expanded by acquisitions. Acquisitions are focused on the company's core regions in NRW, where the highest cost synergies can be generated thanks to the strong presence already in place. LEG applies a selective, value-oriented acquisition strategy that is geared towards clear targets for increasing its operating margins and the FFO yield, and to the development of net asset value (NAV). Even in an environment that has become more challenging due to increased purchase price demands, LEG has stood by its strict acquisition criteria and the principle of capital discipline. However, portfolio growth continued because LEG can play to its competitive strengths, which include its reputation and handling of complex transactions, in special situations in particular. Since its IPO in 2013, for example, LEG has acquired portfolios of different sizes with around 50,000 residential units in total and attractive returns. Thanks to their fast and sustainable integration, economies of scale can be leveraged and operating margins increased.

LEG takes advantage of the appropriate market environment to sell sub-portfolios or individual properties in the context of portfolio optimisation.

Expansion of value-added services

The customer base of around 360,000 tenants is also the foundation for expanding services. LEG can create value-added for both its tenants and its shareholders. By working with partners, external expertise is combined with LEG's management flair to minimise risk. Having successfully launched its multimedia business in cooperation with Unitymedia in 2014, LEG has since then offered its tenants a significantly improved product range at low rates. EnergieServicePlus, a joint venture between LEG (51 %) and Innogy, commenced operations in January 2016 and manages all energy technology and utilisation services for LEG's properties. LEG and B&O Service und Messtechnik AG began a joint venture, TSP – TechnikServicePlus (51 % share held by LEG), for the management of small repairs in January 2017. The new company VSP – VitalServicePlus was created in December 2017 to provide LEG tenants with services relating to care, safety, vitality and community support. In addition to increasing customer satisfaction and loyalty, service activities as a whole make a significantly positive contribution to earnings that is set to keep on growing. In light of this, LEG will continue to work on the development of its housing and non-housing services moving ahead.

Innovation and digitisation

LEG recognised the digitisation megatrend at an early stage. The opportunities for LEG's business model mainly lie in the areas of process efficiency, building technology, value-added services and customer communication. A number of measures were in the planning phase or had already been implemented at the end of the 2018 financial year. Among other things, digital offerings to tenants developed very successfully. For example, 20,000 users signed up to the LEG app and tenant portal in the first twelve months. The messenger service launched in 2017 has already efficiently handled over 150,000 transactions. A powerful IT platform and competent IT specialists are just as important for this as LEG's corporate culture, in which the willingness to innovate and constantly evolve is firmly established.

Further increase in profitability

LEG has increased its profitability steadily since its IPO. Together with systematic cost discipline, efficiency enhancement measures, new profitable business areas and financing at favourable conditions, the dynamic growth in rent is expected to lead to strong earnings growth as well.

Sustainability strategy

LEG's business decisions not only affect the company's economic concerns, but also influence the situation of its various stakeholders. LEG is aware of this responsibility and has developed a sustainability strategy, which is integrated into the Group's overall strategy and targeted at the key action areas of business, tenants, employees, environment and society.

Group Management System

The strategic development of LEG is geared towards sustainably increasing its enterprise value. The Group management system is systematically focused on supporting this value-oriented corporate strategy and on deviations in leading indicators.

The management system of the LEG Group continues to be built on a control concept based on performance indicators, with the planning process serving as a key instrument. This is an integrated process resulting in five-year planning consisting of the statement of comprehensive income, the statement of financial position and the statement of cash flows. The entire process is based on detailed planning specific to properties, persons and projects. As part of the forecast process, planning for the current and following financial years is revised and updated at regular intervals on the basis of the current business performance. At the same time, there is a close connection between planning and forecasts with the risk management system, with the result that corresponding countermeasures can be promptly derived and implemented for any risks ascertained. Cash flow projections for the development of the liquidity situation are prepared on a monthly basis and allow potential financial risks to be identified at an early stage.

The Management Board, the Supervisory Board and executives are informed on the key value drivers and current business performance on a monthly and quarterly basis in the form of standardised reporting. The foundation for this reporting system is the IT-based Group data warehouse, which is connected to the Group-wide SAP system. As part of this regular reporting, current actual data is compared against forecast data, with any deviations being analysed and commented on before countermeasures are developed and introduced. Particular importance is attached to deviations in leading indicators that provide an outlook for future business performance. Key leading indicators are data such as the termination of leases, fluctuation, changes in the regulatory environment and interest rate developments.

In addition to monthly reporting, talks are held in person at various levels on a weekly and monthly basis, where current business figures are analysed, measures – e.g. for improving efficiency – are devised and their effectiveness is reviewed. The efficiency of Group management is determined to a large extent by the effectiveness of the management cycle.

The overall system of key performance indicators is structured by functional areas to ensure a targeted control of individual areas. There is a target definition and achievement system within the functional areas. Corresponding responsibilities for all value drivers are defined within the organisation. The target system affects the focus of the individual levels of hierarchy.

Essential financial key performance indicator for Group management is FFO. Further key figures relevant for the property industry, such as NAV and LTV, are also aggregated, analysed and assessed at Group level.

Furthermore, other financial performance indicators, such as the breakdown of the financing structure as well as key figures and effects in connection with investments and acquisitions, are also subject to special monitoring, and there is regular benchmarking against the corresponding figures for competitors.

In the functional area "residential", LEG focuses in particular on further improving the performance indicators in its operating business. Key indicators include rent per square metre and vacancies, which directly and indirectly influence the Group's key figures. The corresponding cost items, such as maintenance measures and staff and non-staff operating costs, are budgeted and monitored. Monthly reporting is used to analyse effect relationships and to derive measures. The impact of acquisitions is examined separately.

The functional area "administrative and other expenses" primarily consists of the central divisions that perform general Group functions. Detailed budgets for the individual cost positions are discussed and agreed with the respective cost centre managers.

There are further key figures that are not part of the Group management but are subject to monitoring on a regular basis.

For staff costs, financial indicators of a less direct nature – such as sick leave, employee turnover and staff development needs – are taken into account in management reporting.

The nature of the industry means that debt service plays an important role in company management on account of the importance of the liquidity and earnings situation. The Corporate Finance & Treasury division, which is responsible for liquidity controlling, ensures the LEG Group's liquidity position while taking into account market developments. Based on current forecast figures and risk and opportunity reports, liquidity scenarios are included in reporting and measures are derived on this basis. Additional financial reports on refinancing, covenants and interest rate developments are also important elements of Management Board and Executive reporting.

As a further condition, compliance with the obligations under the social charter until 29 August 2018 was taken into account. All of the protective provisions, such as minimum investment, were incorporated into management processes and were included in regular standard reporting. As of 29 August 2018, the social charter has expired and is not applied anymore. Throughout the entire period of duration, the LEG Group successfully observed these protection provisions in full and without any objections.

Non-financial performance indicators are not integrated into LEG Group's management system.

Economic Report

General Economic Conditions

Economic slowdown

While the German economy continued its upward trend in 2018, the growth rate declined significantly. Export conditions in particular were marred by the general downturn in the global economy and weaker European sales markets. At the same time, total economic production in Germany was curbed by a shortage of labour resulting from the high capacity utilisation. The automotive industry's problems in connection with the introduction of the WLTP emissions test standard also led to a significant drop in production in the largest economic sector in the summer months. In addition, the extraordinary development in the chemical industry was also negative, which resulted in a reduction in consumer goods production. Despite a considerable rise in real disposable income, the increase in consumer spending in 2018 was somewhat more modest than in previous years, while the saving rate increased slightly. Private consumption thus became weaker as an economic driver. In contrast, corporate investments remained on the up. According to the Federal Statistical Office, real gross domestic product (GDP) grew by 1.5 % overall in 2018.

Growth momentum in the euro area also fell in the reporting period. The export-driven boom from 2017 was dampened by the uncertainties arising from the US trade dispute, Brexit, Italy's public debt and the unrest in France. The Ifo Institute calculates that real GDP growth for 2018 is therefore expected to amount to 1.9 % after a ten-year high of +2.4 % in 2017.

Foreign sales markets are likely to continue losing momentum due to the continuing economic risks. At the same time, the rise in employment in Germany is expected to be slowed by demographic change. Both are set to have a damping effect on economic growth in 2019. However, economic researchers also assume that domestic economic forces in Germany remain intact and that recession is currently rather unlikely. The Ifo Institute estimates that Germany will achieve real GDP growth of 1.1 % overall in 2019, while an increase of 1.5 % is forecast for the euro area.

According to provisional calculations by the Federal Statistical Office, the average number of people in work increased by 1.3 % in 2018 and thus reached a new record high of 44.8 million. Negative demographic effects were compensated for by increased labour market participation among the German population and the immigration of foreign workers. Deutsche Bundesbank expects net immigration of around 400,000 people in 2018. At the same time, the overall German unemployment rate fell to an average of 5.2 % in 2018 after 5.7 % in the previous year. The Bundesbank expects a further decrease to 4.8 % for 2019. The unemployment rate likewise continued to decline significantly in North Rhine-Westphalia as well. It was 6.4 % at the end of December 2018, after 7.0 % as at the end of the previous year.

Both the rise in employment and negotiated pay adjustments again led to growth in disposable income. Standard wages grew by 2.8 % in 2018 and were therefore ahead of inflation for the seventh year in a row. Measured by the consumer price index (HICP), the latter rose by 1.9 % due to higher energy prices. Somewhat lower inflation of 1.4 % is forecast for 2019 with growth in standard wages of a further 2.8 %.

Overall, economic conditions remained conducive to housing demand in Germany and to LEG's business model.

NRW Residential Market

Persistent demand pressure causing rents and purchase prices to rise significantly throughout NRW

Strong increases in asking rents and property prices are still being observed across the board on the NRW residential market. Average asking rents in NRW climbed by 3.8 % from EUR 6.60 per square metre to EUR 6.85 per square metre. The development was therefore even more dynamic than in the previous year (previous year: 2.8 %).

Purchase prices for owner-occupied apartments and, in particular, apartment buildings also rose significantly. As a result of the continuing high demand for residential property as an asset class among private individuals and institutional investors in Germany and abroad, purchase prices in NRW rose by an average of 9.7 % for owner-occupied apartments and by as much as 10.8 % for apartment buildings.

Demand for housing in NRW is still enjoying strong growth. The average consumption of residential space per capita in metropolitan areas has been declining again since 2015, bucking the long-term trend, and thus indicating a tense market situation last seen in the mid-1990s. Then, similarly to today's situation, a housing market that was geared towards a stable or somewhat downward development was hit by significant increase in immigration. In addition, demand for housing is being further stimulated by continued positive demographic trends. According to provisional IT.NRW figures, the population rose by around 22,000 year-on-year to approximately 17.91 million as at 31 December 2017. No data for the calendar year 2018 was available when preparing this report.

Rent development

In 2018, all cities and districts in NRW reported higher average asking rents (median values) than in the same period of the previous year. However, while the highest growth rates were predominantly seen in metropolitan areas in previous years, more rural districts in Münsterland and East Westphalia are now also benefiting from the general development in rents. The highest increases in 2018 were reported in the districts of Euskirchen (up 6.5%), Herford (up 5.5%), Höxter (up 5.4%), Steinfurt (up 5.3%) and Warendorf (up 5.0%), and the cities Bielefeld (up 6.0%) and Dortmund (up 5.6%). Dortmund, the Westphalian metropolis and LEG's most important location with around 14,000 apartments, has experienced an increase of 15 % in asking rents since 2015. Increases of less than 2 % were only observed in the Oberbergisch district (up 1.5 %) and Hamm (up 0.5 %).

The most attractive housing market regions continued to enjoy strong growth: the top performer with a median of EUR 11.00 per square metre (up 4.0 %) is still the city of Cologne, followed by Dusseldorf at EUR 10.31 (up 3.1 %). Münster (up 3.8 %) made it over the EUR 10-line for the first time. In fourth place is Bonn, now at EUR 9.88 per square metre (up 4.2 %).

It is notable that rental growth in 2018 was comprehensive and homogeneous, and that there were no pronounced regional divergences in growth: 29 of the 53 districts and cities achieved growth rates of between 3.0 % and 4.5 %. The consistently good market situation benefited the metropolitan regions on the Rhine and Ruhr on the one hand, and the medium-sized university cities of Wuppertal (up 3.8 %) and Paderborn (up 4.5 %) on the other, as well as the more peripheral districts such as Siegen-Wittgenstein (up 4.1 %), Olpe (up 3.3 %) and Heinsberg (up 3.4 %).

At currently EUR 4.90 per square metre, Höxter remains by far the most affordable district and the only housing market in North Rhine-Westphalia with average asking rents of less than EUR 5 per month. The Hochsauerlandkreis district (EUR 5.30) and Hagen (EUR 5.43) are both below the EUR 5.50-line.

The situation in the low cost segment – the lower quartile of asking rents – is the same as for asking rents overall. By far the most affordable residential market is Höxter at EUR 4.30 per square metre, followed by the Hochsauerlandkreis district (EUR 4.80) and Hagen (EUR 4.94). The lowest increases in the low cost segment were reported by Gelsenkirchen, up just 1.2 % as against the same period of the previous year. There was similarly low growth in the Märkisch district (up 1.4 %) and the district of Düren (up 1.5 %). The highest increases were in Cologne (up 5.1 %), Bielefeld (up 5.8 %) and the Olpe district (up 5.2 %).

There were 544,800 rent-restricted apartments in North Rhine-Westphalia at the end of 2017. This figure was therefore down by around 14,700 units (2.6 %) as against the previous year. Around 460,700 of these units are social rental apartments in multi-story residential buildings, while 84,100 are owner-occupied. With around 4.9 million multi-story residences in NRW, only 9.4 % of all rented accommodation is rent-restricted. In 2017, around 131,000 rental apartments (28.4 %) were still subject to past rent restrictions. At between 5 % and 10 %, the share of rent-restricted rental housing is relatively low in large cities with populations of more than 500,000 in particular. Examples of this are Dusseldorf (5.3 %) and Essen (7.1 %). The share here fell by 40 basis points again as against the previous year.

The number of buildings completed in NRW increased further by approximately 2.4 % in 2017, the highest level for the past ten years with 48,300 apartments in residential and non-residential buildings. Construction activity has risen strongly in the field of apartment buildings with around 23,300 units completed (up 11.1 %). However, new construction is still focusing on the higher priced segments only. Data for rent restricted units or building activities for the year 2018 was not yet available when preparing this report.

Vacancy development

As in previous years, demand for housing in NRW was characterised by population growth due to immigration and a rise in the number of households, driven by the growth in single- and two-person households. The average vacancy rate in NRW in 2017 – based on active vacancies (real lettable living area) – fell slightly by 10 basis points as against 2016 to 3.0 %. Data for calendar year 2018 was not yet available when preparing this report.

In addition to immigration, mainly younger households relocating for training or professional reasons have resulted in higher demand in selected cities. In the low-cost segment especially, this trend is further intensifying demand pressure and therefore causing prices to rise and the vacancy reserve – already at a low level – to diminish. The residential markets of Cologne, Dusseldorf, Bonn and above all Münster are showing indications of a housing shortage, reflected in extremely low vacancy rates in some cases. In these four cities, which are known for their strong economic and cultural appeal, the vacancy rate once again fell by around 10 basis points year-on-year in 2017, confirming the long-term trend. Between 2010 and 2017, vacancy rates fell from 1.6 % to 1.0 % in Cologne, from 2.3 % to 1.4 % in Dusseldorf, from 2.0 % to 1.1 % in Bonn and from 1.6 % to as low as 0.4 % in Münster. Münster therefore ranks among the cities with the lowest vacancy rates in all of Germany. Only Munich has an even lower vacancy rate at 0.2 %.

The other housing markets in North Rhine-Westphalia reported a largely constant development with changes of not more than 10 basis points compared to the previous year. Only the Hochsauerlandkreis and Gelsenkirchen saw their vacancy rates rise by 20 basis points year-on-year in 2017.

Prices for owner-occupied apartments still rising strongly in growth centres

Purchase prices for owner-occupied apartments rose in virtually all housing market regions as a result of new construction activity continuing to focus on the higher-priced segment and sustained demand pressure. At currently EUR 3,560 (up 7.2 %), Cologne is still in second place after Dusseldorf at EUR 3,700 (up 7.2 %). Münster is only just below EUR 3,500 at EUR 3,467, and its increased appeal is also reflected in a double-digit growth rate (up 12.8 %). It is followed, at some distance, by Bonn (EUR 2,911), where the increase in prices is also in the double digits (up 10.5 %).

The strongest percentage increases (around 20 %) were reported in the districts of Olpe and Minden-Lübbecke and the city of Solingen. In line with the development in asking rents, purchase prices for owner-occupied apartments did not decline or remain stagnant in any districts or cities. The lowest growth (below 2.0 %) was in the districts of Kleve, Gütersloh and Paderborn.

In the low-cost segment (25th percentile), Herne and the district of Hamm reported the lowest increases (below 2.0 %), while the highest price increases were seen in Rhein-Erft-Kreis, the district of Höxter and the city of Muenster.

The top four locations in the multi family building segment – Dusseldorf, Cologne, Muenster and Bonn – were relatively close together. Average asking prices here were between EUR 2,487 (Bonn) and EUR 2,892 per square metre (Dusseldorf). Average purchase prices in the federal state's capital rose by almost 12 % in 2018. While there were only single-digit increases in the previous year, in 2018 prices rose by more than 15 % in several districts and cities. Rhein-Erft-Kreis took the lead, rising by 27.1 %. There was also strong growth in Leverkusen (up 19.8 %), the district of Borken (up 17.8 %) and Herne (up 17.3 %). In line with the level of asking rents, purchase prices in the multi family building segment were the lowest in the Höxter, Hochsauerlandkreis and Märkisch district, and in the Ruhr area cities of Hagen and Gelsenkirchen (less than EUR 900 per square metre in each case). Nonetheless, double-digit growth rates were achieved in the Märkisch district, Hagen and Gelsenkirchen.

Transaction Market

German residential property remained one of the most popular asset categories in 2018. According to CBRE, the transaction volume on the residential property management for portfolios with 50 or more units rose significantly by 10 % year-on-year to EUR 17.2 billion.

Large-volume transactions took on an increasingly important role again in the year under review, with major transactions of EUR 50 million and above accounting for a total of 201 portfolios with a volume of EUR 15.8 billion in 2018.

The transaction market for residential property portfolios was constrained only by the portfolios available. Not taking into account size, the number of transactions fell sharply in comparison to the previous year. This means that the upturn in the transaction volume was driven by the higher price level as well as by a slightly higher average volume per transaction. The average price per square metre increased to EUR 2,310 in 2018, up 15 % on the previous year's figure. In 2018, the selling price per residential unit was approximately EUR 146,000 (up 13 % on 2017).

There is still a great deal of interest in new builds and project developments, in particular by institutional investors such as insurance companies and pension funds, prompted by ongoing high demand for residential portfolios. Investments in project development grew by 12.5 % in the reporting period to around EUR 5.1 billion, boosting the share of project developments on the residential investment market as a whole by 5.6 percentage points to 33 %.

Just as in the previous year, North Rhine-Westphalia was one of the most sought-after regional investment locations in the residential segment in 2018. A total of around 20,000 residential units, approximately EUR 2.8 billion, were sold in the region as part of portfolio transactions in 2018. This meant that revenue hovered slightly below the previous year's level (around EUR 3.0 billion), with significantly more units sold in 2017 (approx. 35,000). North Rhine-Westphalia accounted for around 16 % of the total volume across Germany, down slightly on the previous year. With the acquisition of almost 4,000 residential units, LEG was responsible for a substantial share of transactions in NRW in the year under review.

CBRE Research anticipates investment activity in 2019 to sit slightly below the high level seen in 2018, as institutional investors' continuing interest in residential portfolios indicates that the strong growth on the market is unlikely to tail off for the time being. Nonetheless, political factors could pose challenges moving ahead as these may unsettle some investors. These include areas such as rights of first refusal, property taxes and a tightening of rent control legislation.

Employees

LEG offers its employees "more than a roof over your job" **www.leg-wohnen.de/unternehmen/karriere/** a large number of activities in the areas of training, ongoing professional development and health management were implemented in the 2018 financial year. A central concern is to develop each employee individually and to support an attractive, pro-performance culture of cooperation. A work-life balance is key to ensuring employee satisfaction. This is why, in 2018, LEG took part in the external "work and family" audit **www.beruf-undfamilie.de** and was commended on its family-oriented staff policies designed to fit with different stages of life.

Number of employees

LEG Group employed 1,380 people at the end of 2018 (2017: 1,311). 48 of these were trainees (2017: 51). Adjusted for members of the Management Board, managing directors and trainees, the number of full-time equivalents (FTEs) was 1,212.9 (2017: 1,144.7 FTEs).

T11

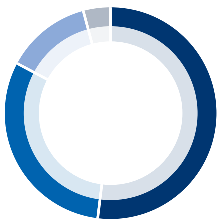
LEG employees as of 31 December

	2018	2017
Total	1,380	1,311
male in %	63	64
female in %	37	36
FTE (excluding Management Board members and trainees)	1,213	1,145
Fluctuation rate in %[1]	9.1	8.9
Absence rate in %[1]	6.8	7.1
Average age in years[1]	44.9	45.3

[1] without service company TechnikServicePlus

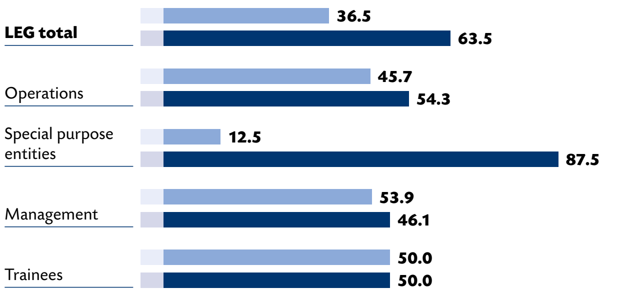
G5

Employee distribution by area of function (in %)



G6

Employee distribution by gender (in %)



Continuing professional development

539 LEG Group employees took part in at least one continuing professional development event in the 2018 financial year. With 1,630 seminar days and 1,004 employees (not including the joint venture TechnikServicePlus), each employee attended an average of 1.6 seminar days. Training costs at LEG (seminars, coaching, travelling expenses, catering) amounted to EUR 747,154, or EUR 744 per employee.

Health management

The core element of LEG's health management is the family service, which offers a broad range of advice and support, such as in the areas of childcare and home/eldercare, in addition to counselling in stressful professional or private situations.

The fitness portal "machtfit" offers subsidised preventative sports activities. Since 2017, 114 members of staff have participated. From November to March, LEG provides all of its employees with fresh fruit at work under the slogan "keep fit through the winter". Several locations hold annual company runs. In 2018, employees also had the opportunity to go for skin screenings to detect skin cancer and 159 of them took up this offer.

Training

Under the motto "get a LEG up – your path to becoming a real estate professional", LEG attaches great importance to training, with particular value placed on ensuring it is varied and well-rounded. LEG trainees work through around 16 different areas and get to grips with all aspects of the property industry. They can also opt to specialise in individual areas and so actively shape their training. The range of seminars and workshops on offer, such as the "fit for customers" service training, also ensure that trainees reach their goals. Trainees continue to have excellent chances of being taken on by the company permanently – in 2018, LEG signed contracts with all trainees who had expressed a wish to do so.

Since 2007, LEG has received 11 certificates from IHK Dusseldorf for outstanding achievements in vocational training and in 2018 the company also received the certificate "Germany's best training workplace" by Focus and Focus Money.

www.leg-wohnen.de/ausbildung/

Current Business Activities

The positive development in the LEG Group's operating activities continued in 2018. The company further increased its earnings power. In the 2018 financial year, LEG continued to grow both organically within its like-for-like portfolio from the previous year and through external acquisitions. The number of apartments increased by 3.0 % in net terms as a result of purchases and sales as at the end of the reporting period. In addition, the acquisitions that were integrated in the course of the 2017 financial year were fully included in earnings figures for the first time in 2018. Overall, FFO I – the most important financial performance indicator for Group management, rose by 7.9 % from EUR 295.3 million to EUR 318.6 million in the 2018 financial year.

In addition to the acquisitions, the development of existing rents, continued high cost discipline in administrative costs and a further reduction in the already low average financing costs also contributed to this increase. Furthermore, the services companies founded in the last few years made stable contributions to the growth in FFO.

As at 31 December 2018, LEG's property portfolio consisted of 133,969 apartments, 1,267 commercial units and 33,855 garages and parking spaces. > Table T12 shows the key portfolio data together with changes as compared to the previous year.

The housing portfolio grew by 4,267 residential units as against the previous year as a result of the transfer of ownership of acquisitions in 2018. In addition, 51 new apartments completed in Münster were also added to the portfolio. This was offset by disposals due to the sale of 469 apartments, of which 112 units with economic transfer as at 31 December 2018. LEG sold properties that did not fit its portfolio structure. To a lesser extent, some of these properties were holdouts from former tenant privatisation activities. The portfolio was further slightly reduced by 77 units as a result, among others, of apartments being combined, for example in the context of modernisation measures.

T12

Development of the real estate portfolio

Key figure	Usage	**31.12.2018**	31.12.2017	Change	in %
Number residential units	Residential	133,969	130,085	3,884	3.0
	Commercial	1,267	1,256	11	0.9
	Total residential and commercial	**135,236**	**131,341**	**3,895**	**3.0**
	Parking	33,855	32,629	1,226	3.8
	Total	**169,091**	**163,970**	**5,121**	**3.1**
Lettable area in sqm	Residential	8,570,023	8,317,872	252,151	3.0
	Commercial	214,927	209,702	5,225	2.5
	Total residential and commercial	**8,784,950**	**8,527,574**	**257,376**	**3.0**
In-place rent in €/sqm	Residential	5.65	5.50	0.15	2.7
	Residential (l-f-l)	5.67	5.50	0.17	3.0
	Commercial	7.47	7.41	0.06	0.8
	Total residential and commercial	**5.69**	**5.55**	**0.14**	**2.6**
Number of vacancies	Residential	4,689	4,581	108	2.4
	Commercial	248	252	–4	–1.6
	Total residential and commercial	**4,937**	**4,833**	**104**	**2.2**
EPRA vacancy in %	Residential	3.5	3.5	+/–0 bp	
	Residential (l-f-l)	3.3	3.3	+/–0 bp	
	Commercial	13.7	10.9	+280 bp	
	Total residential and commercial	**4.0**	**3.5**	**+50 bp**	

Located in LEG's core markets, the portfolios acquired and transferred in 2018 offer the prospect of strong cost synergies (economies of scale) and additional potential for increasing value by reducing vacancies and adjusting rents in line with typical market levels. They have already contributed to the higher operating earnings in the 2018 financial year, as a standardised integration process allowed them to be quickly and successfully integrated into the Group's systems and processes.

The key value drivers for operating activities developed as follows:

The average rent for the housing portfolio was EUR 5.65 per square metre as at 31 December 2018. On a like-for-like basis, rents were up 3.0 % as against the previous year. The free financed portfolio grew by as much as 3.9 % with all market segments contributing. The average for rent-restricted apartments, which accounted for around 26.1 % of the total portfolio as at the end of the year, climbed by 0.4 % on a like-for-like basis to EUR 4.77 per square metre in the reporting year. Cost rent adjustments that are scheduled for restricted rental units every three years did not occur in the reporting year.

The EPRA vacancy rate for all residential units of the LEG Group including the properties acquired was 3.5 % as at the end of the 2018 financial year. On a like-for-like basis, the vacancy rate was 3.3 % and therefore stable at the previous year's level.

Various measures were implemented in the reporting year to further improve letting performance. For example, the launch of the tenant portal and the tenant app at the start of the year to boost accessibility was a huge success. Additional quality management was also set up.

Reflecting rising customer requirements and to further enhance the quality of the housing portfolio, LEG actively implemented needs-driven investments in the past financial year as a sustainable and long-term property manager. Total expenditure amounted to EUR 252.7 million in the 2018 financial year, a year-on-year increase of EUR 65.2 million or 34.8 %, mainly on the basis of the additional strategic investment programme launched in 2017. The share of value-adding capex was 70.8 % (previous year: 61.6 %). Average investment per square metre of living and usable area was increased by EUR 7.0 to EUR 29.4. LEG will also not slow the pace of its investing activities in the years ahead, and in particular it will carry out measures to optimise energy efficiency and improve its properties, driving investment to more than EUR 30 per square metre in the next few years.

The range of services for tenants was extended in the past financial year with the establishment of Vital Service Plus GmbH. Through this company, LEG intends to offer its customers more services and support in the areas of health and safety in future. By contrast, the other service companies founded in recent years are already established and are rolled out to the new properties with each purchase. The underlying strategy of being able to offer residential and tenant services from a single source is having an increasingly positive impact on business performance. For example, LEG was able to secure vital skilled workers in a market environment characterised by a shortage of such resources. The same is true for the energy and heating provided by Energie Service Plus GmbH, and for the multimedia business that LEG is able to offer at attractive terms with excellent value for money.

The contribution to FFO from service activities reached nearly EUR 16 million in 2018. Based on its positive experience to date, LEG is working to develop new value-adding concepts.

Overall, LEG has enjoyed another successful financial year and a positive development in its operating activities. Key performance indicators – such as FFO I or the adjusted EBITDA margin – have improved again, and negative earnings factors, which resulted in part from cost inflation for workman services, were more than offset. Internal organisational and process optimisation, additional earnings effects from acquisitions and a positive market development all contributed to the operating growth. LEG will counter the challenges the future brings by further increasing its innovation and investment propensity on the basis of a stable and proven management platform. Against this backdrop, the LEG Group is assuming that it will continue its ongoing successful growth trajectory in the years ahead as well.

Financing

Further optimisation of the financing portfolio

In the 2018 financial year, LEG repeatedly benefited from the current low interest environment with early refinancing of EUR 260.6 million and borrowing of new funding of EUR 295.1 million, thus securing highly attractive interest conditions. As a result, the key indicators of the credit portfolio were further optimised.

Balanced financing structure

As at the end of the reporting period, approximately 62.1 % of the LEG Group's total financial liabilities relate to bank loans, 27.7 % to funds raised on the capital market (bond, convertible bonds, commercial papers), and 10.3 % to subsidised loans and other liabilities. The loan liabilities to banks are essentially distributed among 12 banks, mainly in the mortgage and state bank (Landesbank) sector. In addition to the criterion of market conditions, diversification in the credit portfolio is also a key factor in selecting financing partners. In line with the financing strategy to date, the maximum share of a single bank in the total credit portfolio is capped at around 20 % to avoid an excessive dependence on any one financing partner. LEG Group's largest creditor currently has a share of approximately 17 % of the bank loan portfolio.

Balanced, long-term maturity profile

In line with the long-term nature of its basic business model and in order to ensure its defensive risk profile, LEG Group has established a balanced, long-term financing structure. Financing is arranged with bank partners on the basis of medium- and long-term agreements with terms of up to twelve years. The funds raised on the capital market have a term of up to eight years. Taking into account the long-term subsidised loans and capital market instruments, the financing portfolio as a whole has an average maturity of approximately 7.6 years. The goal in managing contract terms is that no more than 25 % of total liabilities fall due within one year.

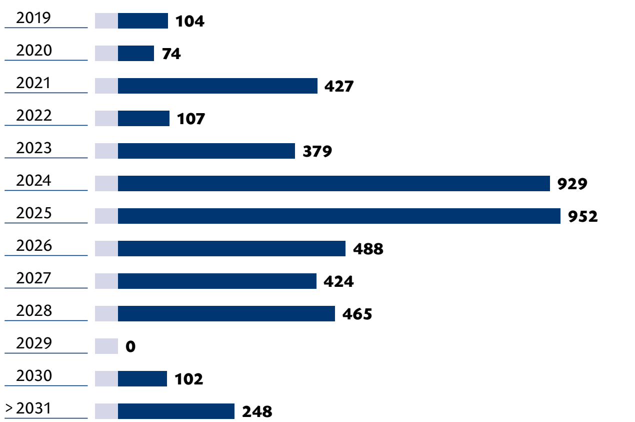
Bank loans are primarily secured by the real collateral of the properties and other collateral usually provided for property portfolio loans. The capital market instruments are unsecured and unsubordinated financing.

Interest rate hedging and average financing costs

The financing agreements, befitting the long-term strategic outlook of the company, are around 91 % hedged by fixed-rate agreements or interest rate swaps. Derivative interest hedging instruments are linked to the respective hedged loan (micro hedge). In line with the internal policies of LEG, interest rate derivatives can be used only to hedge interest rate risks. Thus, the company does not maintain open or speculative items. Given the long-term interest rate hedges in place, no significant interest rate risks are anticipated in the medium term. The average financing costs including subsidised loans and capital market funds amounted to 1.58 % as at the end of the reporting period.

G7

Maturity profile (€ million credit volume)



Covenants

Credit agreements usually contain regulations on compliance with defined financial covenants that the borrower must comply with throughout the term of the agreements. A violation of covenants can result in the lender cancelling the agreement and thus the early repayment of the loan. The covenants agreed relate to figures within the portfolio financed by the respective bank or at the level of the respective borrower. The key financial covenants are within the following ranges:

T13

Covenants 1

Loan-to-Value (LTV) (ratio of the loan amount to the market value of the portfolio)	60 % – 80 %
Debt-Service-Coverage-Ratio (DSCR)/ Interest-Service-Coverage-Ratio (ICR) (ratio of net rental income after management to debt service / interest service)	110 % – 485 %
Debt-to-Rent-Ratio (DRR) (ratio of loan amount to net rental income)	675 % – 1,290 %

Furthermore, individual loan agreements contain stipulations regarding rentals.

In addition, the following covenants were also agreed for unsecured capital market financing in connection with the issue of a bond in 2017:

T14

Covenants 2

Consolidated Net Financial Indebtedness to Total Assets	max. 60 %
Secured Financial Indebtedness to Total Assets	max. 45 %
Unencumbered Assets to Unsecured Financial Indebtedness	min. 125 %
Consolidated Adjusted EBITDA to Net Cash Interest	min. 180 %

As part of its risk management for the company as a whole, LEG has implemented a process for the continuous monitoring of compliance with covenants. LEG has fully complied with the covenants of its loan agreements. Breaches are also not anticipated moving ahead.

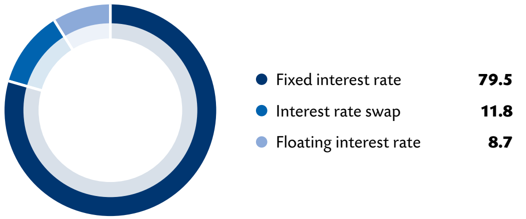
High credit quality confirmed by corporate ratings

LEG has had a "Baa1" long-term issuer rating since 2015, which was again confirmed by Moody's in 2018. The rating particularly reflects the strong market position, leading portfolio management and long-term financing strategy of LEG Immobilien AG. The corporate rating is an essential foundation for further diversifying LEG's financing instruments.

Since 2017, LEG has also had a "P-2" short-term issuer rating, which attests to the company having a high level of creditworthiness for issuing short-term debt securities on the basis of its liquidity, the credit facilities available and its balanced maturity profile.

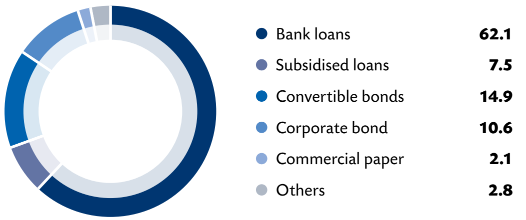
G8

Interest hedging instruments (in %)



G9

Financing sources (in %)



Social Charter

As of 29 August 2018, the LEG social charter expired after a duration of ten years. The social charter contained extensive provisions which were partially enforceable by penalty and had to be complied with in full. Throughout the entire period of duration, the LEG Group successfully observed these protection provisions in full and without any objections.

These protection provisions included regulations on::

Tenant/property protection
- protection against eviction
- special protection against eviction for older tenants
- protection of leasehold improvements for existing tenants
- obligation to provide corresponding information to tenants and proof of performance
- general continuance of section 16 (1) of the German Controlled Tenancy Act
- limit on rent increases
- exclusion of luxury modernisations for existing tenants
- minimum investment in Group apartments
- restrictions on disposal when selling apartments
- relocation of existing tenants within the Group
- upkeep of social services
- duty to establish a foundation

Employee protection
- exclusion of redundancies/dismissals with option of altered employment conditions
- protection of existing collective and works agreements against termination
- obligation to provide corresponding information to all employees and partners under collective law and proof of performance
- membership in employer association
- continuance of trainee positions
- offering training activities

Economic restrictions and restrictions on resale and restructuring activities

Throughout the duration of the social charter, an audited report was prepared each year on all measures, action taken and action not taken in connection with the protection provisions on the basis of which the Ministry for Transport of the State of North Rhine-Westphalia monitored compliance with the social charter.

For prior periods and the period from 1 January to 29 August 2018, full compliance was confirmed by the auditing company with an unqualified opinion. To date, no objections have been raised by the then sellers.

Compliance with the social charter was not affected by the conversion of Lancaster GmbH & Co. KG into LEG Immobilien AG and the subsequent IPO.

GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN) and Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal (GEWG)

With the privatisation agreement dated 14 December 2001, Federal Railway Assets (Bundeseisenbahnvermögen) had sold, among others, the companies GWN and GEWG. In accordance with the share purchase and transfer agreements for the shares in GWN and GEWG, social charters with a term of ten years were compulsory concluded with the purchasers. The purchasers complied in full with these obligations.

Regardless of the social charters, which have since expired, both GWN and GEWG must continue to be operated as a social institution of the German Federal Railways in accordance with principles stipulated by Bundeseisenbahnvermögen for as long as authorised persons (railway workers) live in these properties and former GWN or GEWG employees who were employed by the company when the social charters were agreed are still in employment. Therefore, the residential portfolio of both companies primarily serve the purpose of providing adequate and affordable housing for railway workers and their families. LEG complies with these obligations resulting from the agreements on housing assistance and providing of housing. This is also confirmed annually in an audit report by an auditor (PwC in 2018).

In 2001, GWN was acquired by the LEG Group. GEWG was acquired in October 2014 as part of the Vitus Group acquisition.

Tenant Foundation

In the context of the privatisation of LEG, the formation of the LEG NRW Tenant Foundation had been agreed in the acquisition and takeover agreement of 29 August 2008. The shareholders of LEG NRW GmbH (the former Lancaster GmbH & Co. KG and Rote Rose GmbH & Co. KG) established the foundation for social concerns in cooperation with the state of North Rhine-Westphalia to benefit tenants and the community in particular. The aim of this is to create non-profit or charitable value added for tenants and the public.

The foundation's engagement is focused on benevolent and charitable purposes and has been supporting LEG tenants for nine years. The foundation's support services start with the tenant's application and extend from individual assistance for tenants in distress, to providing accessible housing to integrative or intercultural events in residential quarters, which are also enjoyed by non-LEG tenants.

Management board and the board of trustees of the LEG tenant foundation understand that one of their major tasks is to continually communicate to LEG's tenants that the foundation is a point of contact for tenants in emergency or distress. Cooperation with LEG plays a crucial role in this context. LEG gladly assumes this responsibility as social engagement is of high significance to the company.

The social commitment of the Tenant Foundation therefore also remains of great importance to LEG Immobilien AG which is again reflected in the numerous projects that were supported by the foundation in 2018. In 2018, a total of 98 projects or tenants in need of assistance received funding of EUR 167,654.32. 58 of these projects/subsidies with a volume of EUR 42,493.18 were of a benevolent nature and 40 projects with a volume of EUR 125,161.14 were of a charitable nature.

The formation of the foundation, which has endowment capital of EUR 5 million, was officially recognised by the Dusseldorf district authority on 30 December 2009.

Dividend

The development of FFO I is the decisive factor with respect to the amount of the dividend. LEG intends to distribute at least 70 % of its FFO I to shareholders as a dividend on a sustainable basis. The retained portion of FFO I is used for value-adding investments in the portfolio, for acquisitions and the repayment of loans. Thus, this portion contributes to further increases in shareholder value.

The Management Board and the Supervisory Board will propose a dividend of EUR 3.53 per share at the Annual General Meeting for the past 2018 financial year. This corresponds to a distribution ratio of around 70 % of FFO I and implies a dividend yield of 3.9 % based on the closing price of LEG shares as at the end of 2018.

Analysis of net Assets, financial Position and Results of Operations

Please see the > **glossary** in the annual report for a definition of individual ratios and terms.

Results of operations

Aggregate income statement
The condensed income statement is as follows:

In the reporting period (1 January 2018 to 31 December 2018) net cold rents climbed by 4.8 % up to EUR 560.2 million against the comparative period (1 January 2017 to 31 December 2017). In spite of higher project costs, net rental and lease income rose by 4.8 %.

The adjusted EBITDA increased by EUR 19.5 million to EUR 405.2 million. The adjusted EBITDA margin therefore slightly rose to 72.3 % in the reporting period (comparative period 72.1 %).

In the context of portfolio remeasurement valuation gains of EUR 800.9 million were determined (previous year: EUR 1,036.8 million).

The increase in net finance earnings resulted primarily from the measurement of derivatives for the convertible bonds. In the 2017 financial year, early refinancing of subsidised loans resulted in increased interest expenses.

T15

Condensed income statement

€ million	Q4 2018	Q4 2017	01.01. – 31.12.2018	01.01. – 31.12.2017
Net rental and lease income	103.4	96.5	418.6	399.4
Net income from the disposal of investment properties	– 0.3	– 0.5	– 0.9	– 1.4
Net income from the remeasurement of investment properties	417.4	555.7	800.9	1.036.8
Net income from the disposal of real estate inventory	– 0.2	– 0.1	– 1.6	– 2.3
Net income from other services	1.5	1.3	5.3	6.3
Administrative and other expenses	– 13.1	– 12.8	– 44.8	– 41.3
Other income	0.3	0.9	0.8	1.4
Operating earnings	**509.0**	**641.0**	**1,178.3**	**1,398.9**
Interest income	0.4	6.9	0.8	7.4
Interest expenses	– 37.3	– 63.5	– 109.3	– 152.3
Net income from investment securities and other equity investments	– 1.6	1.4	1.0	4.1
Net income from associates	0.0	0.0	0.2	0.4
Net income from the fair value measurement of derivatives	74.7	– 75.0	25.4	– 138.2
Net finance earnings	**36.2**	**– 130.2**	**– 81.9**	**– 278.6**
Earnings before income taxes	**545.2**	**510.8**	**1,096.4**	**1,120.3**
Income taxes	**– 105.8**	**– 124.1**	**– 249.3**	**– 275.5**
Net profit or loss for the period	**439.4**	**386.7**	**847.1**	**844.8**

Net rental and lease income

Net rental and lease income for 2018 is composed as follows:

T16

Net rental and lease income

€ million	Q4 2018	Q4 2017	01.01. – 31.12.2018	01.01. – 31.12.2017
Net cold rent	143.2	136.3	560.2	534.7
Profit from operating expenses	– 1.2	0.3	– 4.5	– 2.8
Maintenance for externally procured services	– 14.2	– 16.2	– 51.8	– 51.2
Employee benefits	– 15.1	– 15.8	– 60.3	– 55.8
Allowances on rent receivables	– 4.3	– 1.8	– 8.4	– 7.2
Depreciation and amortisation expenses	– 1.6	– 1.6	– 6.1	– 6.1
Other	– 3.4	– 4.7	– 10.5	– 12.2
Net rental and lease income	**103.4**	**96.5**	**418.6**	**399.4**
Net operating income-margin (in %)	**72.2**	**70.8**	**74.7**	**74.7**
Non-recurring project costs – rental and lease	1.1	2.1	5.8	3.4
Depreciation	1.6	1.6	6.1	6.1
Adjusted net rental and lease income	**106.1**	**100.2**	**430.5**	**408.9**
Adjusted net operating income-margin (in %)	**74.1**	**73.5**	**76.9**	**76.5**

The LEG Group increased net cold rents by EUR 25.5 million (4.8 %) against the comparative period. In-place rent per square metre on a like-for-like basis rose by 3.0 % in the reporting period.

The rise in rental-related staff costs is due primarily to higher project-related expenses with a one-time character and additional staff build-up.

Adjusted net rental and lease income rose by 5.3 %, slightly more strongly than net cold rents. As a result, the adjusted net operating income (NOI) margin was slightly stronger in the 2018 financial year.

The EPRA vacancy rate, which is a ratio of rent lost due to vacancy to potential rent in the event of full occupancy on the basis of market rental on the current reporting date, was 3.3 % on a like-for-like basis as at 31 December 2018.

T17

EPRA vacancy rate

€ million	2018	2017
Rental value of vacant space – like-for-like	20.1	18.0
Rental value of vacant space – total	21.5	19.3
Rental value of the whole portfolio – like-for-like	599.3	547.3
Rental value of the whole portfolio – total	619.4	550.5
EPRA vacancy rate – like-for-like (in %)	**3.3**	**3.3**
EPRA vacancy rate – total (in %)	**3.5**	**3.5**

The EPRA capex splits the capitalised expenditure of the financial year in comparison to the previous year in four components. On a like-for-like portfolio basis, the value-adding modernisation work as a result of the strategic investment program surged by EUR 64.5 million to EUR 173.7 million in the reporting year. In the area of acquisitions, the upturn is due primarily to investments in portfolios already acquired in 2017. The decline in the Development area results from the completion of the Weißenburg garden estate in 2018 financial year. No other costs are included in the total amount of capex.

T18

EPRA capex

€ million	2018	2017
Acquisitions	3.0	0.1
Development	2.2	6.2
Like-for-like portfolio	173.7	109.2
Other	0.0	0.0
Capex	**178.9**	**115.5**

In addition to the value-adding modernisation, maintenance recognised as an expense contributed to the EUR 65.2 million increase in total investment in the reporting period to EUR 252.7 million.

T19

Maintenance and modernisation

€ million	Q4 2018	Q4 2017	**01.01. – 31.12.2018**	01.01. – 31.12.2017
Maintenance expenses	19.7	23.6	73.8	72.0
thereof investment properties	19.4	23.2	72.4	70.7
Capital expenditure	58.6	52.8	178.9	115.5
thereof investment properties	56.4	50.7	174.0	112.7
Total investment	**78.3**	**76.4**	**252.7**	**187.5**
thereof investment properties	75.8	73.9	246.4	183.4
Area of investment properties in million sqm	8.78	8.51	8.60	8.38
Average investment per sqm (€)	**8.9**	**9.0**	**29.4**	**22.4**
Capex ratio in %	**74.8**	**69.1**	**70.8**	**61.6**

In the 2018 financial year, the LEG Group invested an average of EUR 29.4 per square metre.

The EPRA Cost Ratio, as an indicator for the operating performance, is the percentage of operating and administrative expenses in gross rental income. By definition, one-off and non-recurring effects are not adjusted. There are adjustments for leasehold land interests and directly attributable vacancy costs and a company-specific adjustment for the multimedia business result. For reasons of transparency and comparability, a further adjustment is made for maintenance expenses in the financial year as the maintenance expenses of a property company depend to a high degree on the accounting standard used and on the specific maintenance strategy.

T20

EPRA cost ratio

€ million	**2018**	2017
Adjusted EBITDA	405.2	385.7
Rental income	560.2	534.7
Maintenance expenses	– 51.8	– 51.2
Management costs	103.2	97.8
Maintenance expenses	51.8	51.2
Leasehold land interests	– 4.7	– 4.6
EPRA costs (including direct vacancy costs)	150.3	144.4
Direct vacancy costs	– 12.0	– 11.1[1]
EPRA costs (excluding direct vacancy costs)	138.3	133.3
Rental income	560.2	534.7
Leasehold land interests	– 4.7	– 4.6
Gross rental income	555.5	530.1
EPRA cost ratio (including direct vacancy costs)	**27.06 %**	**27.24 %**
EPRA cost ratio (excluding direct vacancy costs)	**24.90 %**	**25.15 %**
Adjustment for maintenance	51.8	51.2
Adjusted EPRA costs (including direct vacancy costs)	98.5	93.2
Adjusted EPRA costs (excluding direct vacancy costs)	86.5	82.1
Adjusted EPRA cost ratio (including direct vacancy costs)	**17.7%**	**17.6%**
Adjusted EPRA cost ratio (excluding direct vacancy costs)	**15.6%**	**15.5%**

[1] Prior period amount was adjusted.

Net income from the disposal of investment properties

In 2018, net income from the disposal of investment properties is composed as follows:

T21

Net income from the disposal of investment properties

€ million	Q4 2018	Q4 2017	01.01. – 31.12.2018	01.01. – 31.12.2017
Income from the disposal of investment properties	9.8	3.0	29.5	66.5
Carrying amount of the disposal of investment properties	– 9.8	– 3.3	– 29.5	– 67.4
Costs of sales of investment properties sold	– 0.3	– 0.1	– 0.9	– 0.5
Net income from the disposal of investment properties	**– 0.3**	**– 0.4**	**– 0.9**	**– 1.4**
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	1.9	0.3	1.8	2.1
Adjusted net income from disposals	**1.6**	**– 0.1**	**0.9**	**0.7**

In comparison to the previous year, there were fewer disposals of investment property in the reporting period.

Sales of investment property amounted to EUR 29.5 million and relate mainly to objects which were reported as assets held for sale and were remeasured up to the agreed property value as of 31 December 2017.

Changes in value of investment properties

Net income from the remeasurement of investment property amounted to EUR 800.9 million in 2018 (2017: EUR 1,036.8 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase in value of 8.2 % (2017: 12.4 %).

The average value of residential investment property (including IFRS 5 properties) was EUR 1,198 per square metre as at 31 December 2018 (31 December 2017: EUR 1,091 per square metre) including acquisitions and EUR 1,203 per square metre not including acquisitions. Including investments in modernisation and maintenance work, the average portfolio value thus developed by 10.3 % in the financial year (2017: 15.8 %).

The increase in the value of the portfolio is largely a result of the positive development of in-place rents and the reduction in the discount and capitalisation rate.

The EPRA Net Initial Yield is calculated on the basis of the annualised net cash rental income of the financial year divided by the gross market value of the residential property portfolio. The topped-up net initial yield results from an adjustment for costs of rental incentives granted.

T22

EPRA net initial yield

€ million	31.12.2018	31.12.2017
Investment properties	10,702.2	9,448.0
Assets held for sale	20.3	30.9
Market value of the residential property portfolio (net)	10,722.5	9,478.9
Estimated incidental costs of acquisition	1,056.9	934.3
Market value of the residential property portfolio (gross)	11,779.4	10,413.2
Annualised net cash rental income of the financial year (net cold rent)	552.3	520.9
Cash income from operating and heating costs	268.0	260.2
Cash expenses from operating and heating costs	– 255.4	– 256.8
Annualised gross cash rental income of the financial year (net cold rent)	564.9	524.3
Maintenance expenses	– 51.7	– 50.7
Vacancy and non-allocable operating costs	– 4.5	– 4.5
Legal and consulting costs	– 5.3	– 4.8
Property manager fee owners' association	– 0.3	– 0.4
Annualised property expenses	– 61.8	– 60.4
Annualised net cash rental income of the financial year	503.1	463.9
Adjustments for rental incentives	4.9	4.1
Topped-up annualised net cash rental income of the financial year	508.0	468.0
EPRA Net Initial Yield in %	**4.3**	**4.5**
EPRA topped-up Net Initial Yield in %	**4.3**	**4.5**

Net income from the disposal of real estate inventory

In 2018, net income from the disposal of real estate inventory is composed as follows:

T23

Net income from the disposal of real estate inventory

€ million	Q4 2018	Q4 2017	**01.01. – 31.12.2018**	01.01. – 31.12.2017
Income from the disposal of inventory properties	1.1	–	1.6	0.2
Carrying amount of the real estate inventory disposed	– 0.6	–	– 0.8	– 0.2
Cost of sales of the real estate inventory disposed	– 0.7	– 0.1	– 2.4	– 2.3
Net income from the disposal of real estate inventory	**– 0.2**	**– 0.1**	**– 1.6**	**– 2.3**

The sale of the remaining properties of the former Development division continued in 2018. The remaining real estate inventory held as at 31 December 2018 amounted to EUR 2.7 million, EUR 0.4 million of which related to properties under development.

Net income from other services

T24

Other services

€ million	Q4 2018	Q4 2017	**01.01. – 31.12.2018**	01.01. – 31.12.2017
Income from other services	3.4	3.2	11.7	12.2
Expenses in connection with other services	– 1.9	– 1.9	– 6.4	– 5.9
Net income from other services	**1.6**	**1.3**	**5.3**	**6.3**

Other services include electricity and heat fed to the grid, IT services for third parties and management services for third-party properties.

Despite ongoing good levels of utilisation, the very good operating results of the electricity and heat generated in the previous year were not achieved in the 2018 financial year, also as a result of higher commodity prices.

Administrative and other expenses

Administrative and other expenses are composed as follows:

T25

Administrative and other expenses

€ million	Q4 2018	Q4 2017	01.01. – 31.12.2018	01.01. – 31.12.2017
Other operating expenses	– 7.3	– 6.2	– 17.5	– 17.4
Employee benefits	– 5.3	– 6.1	– 24.8	– 22.2
Purchased services	– 0.2	– 0.3	– 0.9	– 1.1
Depreciation and amortisation	– 0.3	– 0.2	– 1.6	– 0.6
Administrative and other expenses	**– 13.1**	**– 12.8**	**– 44.8**	**– 41.3**
Depreciation and amortisation	0.3	0.2	1.6	0.6
Non-recurring project costs and extraordinary and prior-period expenses	3.4	3.6	9.2	7.4
Adjusted administrative and other expenses	**– 9.4**	**– 9.0**	**– 34.0**	**– 33.3**

The main driver for the increase in administrative and other expenses of EUR 3.5 million was the extraordinary staff costs which resulted in project costs increasing by EUR 1.8 million.

Adjusted administrative expenses increased moderately by 2.1 % to EUR 34.0 million and thus at a much lower rate than net cold rents.

Net finance earnings

T26

Net finance earnings

€ million	Q4 2018	Q4 2017	01.01. – 31.12.2018	01.01. – 31.12.2017
Interest income	0.4	6.9	0.8	7.4
Interest expenses	– 37.3	– 63.5	– 109.3	– 152.3
Net interest income	**– 36.9**	**– 56.6**	**– 108.5**	**– 144.9**
Net income from other financial assets and other investments	– 1.6	1.4	1.0	4.1
Net income from associates	–	–	0.2	0.4
Net income from the fair value measurement of derivatives	74.7	– 75.0	25.4	– 138.2
Net finance earnings	**36.2**	**– 130.2**	**– 81.9**	**– 278.6**

The measurement of derivatives for the convertible bonds is the main driver for the enhancement in net finance earnings from EUR -278.6 million to EUR -81.9 million, and the early refinancing of subsidised loans in the 2017 financial year which resulted in additional interest expenses from loan amortisation of EUR -41.0 million. The early refinancing of subsidised loans in the 2018 financial year resulted in additional expense from loan amortisation of -0.9 million.

In the reporting period, net income from the fair value measurement of derivatives again resulted primarily from changes in the fair value of derivatives from the convertible bonds in the amount of EUR 26.5 million (comparative period: EUR -138.8 million).

The average interest rate for the entire loan portfolio declined to 1.58 % (2017: 1.74 %) on an average term of 7.6 years (2017: 8.1 years).

The measurement of the convertible and corporate bonds at amortised cost of EUR -10.0 million (previous year: EUR -8.3 million) was included in interest expenses from loan amortisation in the reporting period.

Income tax expenses

T27

Income tax expenses

€ million	Q4 2018	Q4 2017	**01.01. – 31.12.2018**	01.01. – 31.12.2017
Current tax expenses	– 1.6	– 3.2	– 6.5	– 8,2
Deferred tax expenses	– 104.2	– 121.0	– 242.8	– 267.3
Income tax expenses	**– 105.8**	**– 124.1**	**– 249.3**	**– 275.5**

As at 31 December 2018, the current effective Group tax rate was 22.7 % (previous year: 24.6 %). The decline in income taxes from EUR -275.5 million in the previous year to EUR -249.3 million in the reporting period is essentially due to the lower deferred tax expenses on investment property resulting from the portfolio measurement.

For the 2018 financial year, expenses for current income taxes were EUR -6.5 million. In the previous year, there was a current tax charge of EUR -8.2 million. As in the previous year, offsetting losses carried forward continued to result in lower taxation.

Reconciliation to FFO

FFO is a key performance indicator at LEG Immobilien AG. LEG Immobilien AG distinguishes between FFO I (not including the net income from the disposal of investment property) and FFO II (including the net income from the disposal of investment property) and AFFO (FFO I adjusted for capex capitalisation). Details of the calculation system for the respective indicator can be found in the **> glossary.**

FFO I, FFO II and AFFO were calculated as follows:

T28

Calculation of FFO I, FFO II and AFFO

€ million	Q4 2018	Q4 2017	**01.01. – 31.12.2018**	01.01. – 31.12.2017
Net cold rent	143.2	136.3	560.2	534.7
Profit from operating expenses	– 1.2	0.3	– 4.5	– 2.8
Maintenance for externally procured services	– 14.2	– 16.2	– 51.8	– 51.2
Employee benefits	– 15.1	– 15.8	– 60.3	– 55.8
Allowances on rent receivables	– 4.3	– 1.8	– 8.4	– 7.2
Other	– 3.4	– 4.7	– 10.4	– 12.2
Non-recurring project costs (rental and lease)	1.1	2.1	5.8	3.4
Current net rental and lease income	**106.1**	**100.2**	**430.6**	**408.9**
Current net income from other services	**2.2**	**2.0**	**7.8**	**8.7**
Employee benefits	– 5.2	– 6.0	– 24.8	– 22.2
Non-staff operating costs	– 7.5	– 6.6	– 18.4	– 18.5
Non-recurring project costs (admin.)	3.4	3.6	9.2	7.4
Extraordinary and prior-period expenses	0.0	0,0	0.0	0.0
Current administrative expenses	**– 9.3**	**– 9.0**	**– 34.0**	**– 33.3**
Other income	0.3	1.0	0.8	1.4
Adjusted EBITDA	**99.3**	**94.2**	**405.2**	**385.7**
Cash interest expenses and income	– 18.4	– 20.4	– 77.2	– 80.9
Cash income taxes	– 1.7	– 3,4	– 5.8	– 6.4
FFO I (before adjustment of non-controlling interests)	**79.2**	**70.4**	**322.2**	**298.4**
Adjustment of non-controlling interests	– 2.8	– 1.4	– 3.6	– 3.1
FFO I (after adjustment of non-controlling interests)	**76.4**	**69.0**	**318.6**	**295.3**
Adjused net income from disposals	1.8	– 0.4	0.9	0.6
Cash income taxes from disposal of investment properties	–	0.3	– 0.7	– 1.8
FFO II (incl. disposal of investment properties)	**78.2**	**68.9**	**318.8**	**294.1**
CAPEX	– 58.6	– 52.8	– 178.9	– 115.5
Capex-adjusted FFO I (AFFO)	**17.8**	**16.2**	**139.7**	**179.8**

At EUR 318.6 million in the year under review, FFO I (not including net income from the disposal of investment property) was 7.9 % higher than in the previous year (EUR 295.3 million). The rise resulted from the positive impact of higher rents in connection with an expansion of the EBITDA margin from 72.1 % in the previous year to 72.3 % and from the decline in interest expenses.

The reduced average interest rate due to refinancing measures also impacts positively on the interest coverage ratio (ratio of adjusted EBITDA to cash interest expense) which increased from 477 % in the comparative period to 525 %.

Net assets

Condensed statement of financial position

The condensed statement of financial position is as follows::

T29

Condensed statement of financial position

€ million	31.12.2018	31.12.2017
Investment properties	10,709.0	9,460.7
Other non-current assets	175.9	172.3
Non-current assets	10,884.9	9,633.0
Receivables and other assets	55.4	63.7
Cash and cash equivalents	233.6	285.4
Current assets	289.0	349.1
Assets held for sale	20.3	30.9
Total assets	**11,194.2**	**10,013.0**
Equity	4,783.9	4,112.4
Non-current financing liabilities	4,113.3	3,821.4
Other non-current liabilities	1,382.3	1,158.8
Non-current liabilities	5,495.6	4,980.2
Current financing liabilities	484.8	478.2
Other current liabilities	429.9	442.2
Current liabilities	914.7	920.4
Total equity and liabilities	**11,194.2**	**10,013.0**

Investment property increased as a result of acquisitions (EUR 292.3 million), remeasurement income (EUR 800.9 million), value-enhancing modernisation measures (EUR 174.0 million) and offsetting disposals (EUR 34.8 million, including EUR 20.3 million with economic transfer after 31 December 2018) by EUR 1,248.3 million against the previous year. As at the reporting date, the share of total assets was 95.7 %.

Receivables from not yet invoiced operating costs decreased by EUR 6.7 million. Rent receivables increased by EUR 1.8 million in comparison to the previous year.

Equity rose as a result of net profit for the period (EUR 847.1 million) and profits recognised in other comprehensive income as a result of the remeasurement of pensions and derivatives (EUR 11.1 million). A dividend of EUR 192.1 million was distributed to the shareholders of LEG Immobilien AG.

Mainly as a result of refinancing, non-current financing liabilities rose by EUR 291.9 million against the previous year, whereas current financing liabilities moved up slightly by EUR 6.6 million.

Driven primarily by net income from the measurement of investment property, deferred tax liabilities (shown under other non-current liabilities) rose by EUR 245.4 million to EUR 1,100.6 million.

The key factor impacting the decrease in other current liabilities by EUR 12.3 million is the remeasurement of derivatives in the convertible bond issued in 2014.

Net asset value (NAV)

A further key figure relevant in the property industry is NAV. Details of the calculation system for this indicator can be found in the > **glossary.**

The LEG Group reported basic EPRA NAV of EUR 6,112.5 million as at 31 December 2018 (31 December 2017: EUR 5,246.5 million). The effects of the possible conversion of the convertible bond and other equity interests are shown by an additional calculation of diluted EPRA NAV. After adjustment for goodwill effects, adjusted diluted EPRA NAV amounted to EUR 6,613.7 million or EUR 96.10 per share as at 31 December 2017 (31 December 2017: EUR 5,753.0 million or EUR 83.81 per share).

As a result of the call and put option of the convertible bond issued in 2014, from 2019 LEG expects an increasing probability of early conversion. For reasons of improved transparency, LEG would like to clarify the economic impact of an assumed conversion as of the relevant reporting date. As of the reporting date, there is thus a pro forma NAV per share of EUR 93.40. In comparison to the previous year, this is an increase of 15.4 %.

T30

EPRA-NAV

	31.12.2018			31.12.2017		
€ million	basic	Effect of exercise of convertibles / options	diluted	basic	Effect of exercise of convertibles / options	diluted
Equity attributable to shareholders of the parent company	**4,757.6**	**–**	**4,757.6**	**4,087.4**	**–**	**4,087.4**
Non-controlling interests	**26.3**	**–**	**26.3**	**25.0**	**–**	**25.0**
Equity	**4,783.9**	**–**	**4,783.9**	**4,112.4**	**–**	**4,112.4**
Effect of exercise of options, convertibles and other equity interests	–	553.9	553.9	–	559.2	559.2
NAV	**4,757.6**	**553.9**	**5,311.5**	**4,087.4**	**559.2**	**4,646.6**
Fair value measurement of derivative financial instruments	222.2	–	222.2	259.8	–	259.8
Deferred taxes on WFA loans and derivatives	13.1	–	13.1	12.7	–	12.7
Deferred taxes on investment property	1,151.7	–	1,151.7	918.7	–	918.7
Goodwill resulting from deferred taxes on EPRA adjustments	– 32.1	–	– 32.1	– 32.1	–	– 32.1
EPRA NAV	**6,112.5**	**553.9**	**6,666.4**	**5,246.5**	**559.2**	**5,805.7**
Number of shares	**63,188,185**	**5,635,729**	**68,823,914**	**63,188,185**	**5,455,398**	**68,643,583**
EPRA NAV per share (€)	**96.73**	**–**	**96.86**	**83.03**	**–**	**84,58**
Goodwill resulting from synergies	–52.7	–	–52.7	–52.7	–	–52.7
Adjusted EPRA NAV (w/o effects from goodwill)	**6,059.8**	**553.9**	**6,613.7**	**5,193.8**	**559.2**	**5,753.0**
Number of shares	**63,188,185**	**5,635,729**	**68,823,914**	**63,188,185**	**5,455,398**	**68,643,583**
Adjusted EPRA NAV per share (€)	**95.90**	**–**	**96.10**	**82.20**	**–**	**83.81**
Effects from a simulated executed conversion	– 185.7	–	– 185.7	– 199.4	–	– 199.4
PRO FORMA NAV (w/o effects from goodwill), after simulated executed conversion	**5,874.1**	**553.9**	**6,428.0**	**4,994.4**	**559.2**	**5,553.6**
PRO FORMA NAV per share (€)	**92.96**	**–**	**93.40**	**79.04**	**–**	**80.90**
EPRA NAV	**6,112.5**	**553.9**	**6,666.4**	**5,246.5**	**559.2**	**5,805.7**
Fair value measurement of derivative financial instruments	– 222.2	–	– 222.2	– 259.8	–	– 259.8
Deferred taxes on WFA loans and derivatives	– 13.1	–	– 13.1	– 12.7	–	– 12.7
Deferred taxes on investment property	– 1,151.7	–	– 1,151.7	– 918.7	–	– 918.7
Goodwill resulting from deferred taxes on EPRA adjustments	32.1	–	32.1	32.1	–	32.1
Fair value measurement of financing liabilities	– 149.1	–	– 149.1	– 286.6	–	– 286.6
Valuation uplift resulting from FV measurement financing liabilities	104.0	–	104.0	74.8	–	74.8
EPRA NNNAV	**4,712.5**	**553.9**	**5,266.4**	**3,875.6**	**559.2**	**4,434.8**
Number of shares	**63,188.185**	**5,635,729**	**68,823,914**	**63,188,185**	**5,455,398**	**68,643,583**
EPRA-NNNAV per share (€)	**74.58**	**–**	**76.52**	**61.33**	**–**	**64.61**

Loan-to-value ratio (LTV)

Net debt in relation to property assets declined in the reporting period, largely due to portfolio measurement.

The loan-to-value ratio (LTV) stands at 40.7 % (31 December 2017: 42.3 %).

T31

Loan-to-value ratio

€ million	31.12.2018	31.12.2017
Financing liabilities	4,598.1	4,299.6
Less cash and cash equivalents	233.6	285.4
Net financing liabilities	**4,364.5**	**4,014.2**
Investment properties	10,709.0	9,460.7
Assets held for sale	20.3	30.9
Prepayments for investment properties	–	–
Prepayments for business combinations	–	2.0
Real estate assets	**10,729.3**	**9,493.6**
Loan-to-value ratio (LTV) in %	**40.7**	**42.3**

Financial position

Financing structure

The Group generated a net profit for the period of EUR 847.1 million (previous year: EUR 844.8 million). Equity amounted to EUR 4,783.9 million (previous year: EUR 4,112.4 million). This corresponds to an equity ratio of 42.7 % (previous year: 41.1 %).

A dividend of EUR 192.1 million (EUR 3.04 per share) was paid from cumulative other reserves in the reporting period.

Statement of cash flows

The condensed statement of cash flows of the LEG Group for 2018 is as follows:

T32

Statement of cash flows

€ million	01.01. – 31.12.2018	01.01. – 31.12.2017
Cash flow from operating activities	288.6	269.6
Cash flow from investing activities	– 431.9	– 451.3
Cash flow from financing activities	91.5	300.4
Change in cash and cash equivalents	**– 51.8**	**118.7**

Higher proceeds from net cold rent had a positive effect on the development of cash flow from operating activities. The cash flow from operating activities therefore increased by EUR 19.0 million year-on-year to EUR 288.6 million.

Acquisitions and modernisation work on the existing property portfolio resulted in payments of EUR 451.8 million reported in cash flow from investing activities. This was offset by the proceeds from the sale of properties in the amount of EUR 26.9 million.

Repayments of EUR 592.4 million, issue of a private placement of EUR 130 million as well as the utilisation of new loans and money market papers of EUR 752.7 million, largely driven by the restructuring of the financing portfolio, impacted cash flow from financing activities. The dividend distribution in 2018 of EUR 192.1 million was EUR 17.7 million higher than in the previous year (EUR 174.4 million). The LEG Group was solvent at all times in the past financial year.

In respect to events after the reporting period, please refer to the > **consolidated financial statements.**

Risks, Opportunities and Forecast Report

Risk and Opportunity Report

Governance, Risk & Compliance

Standard process for integrated management of corporate risks

LEG regularly reviews opportunities to advance the development and growth of the Group. In order to take advantage of opportunities, risks may also have to be taken. It is therefore essential that all key risks are recognised, assessed and professionally managed. As part of its responsible handling of risk, a Group-wide structure for the identification, management and controlling of risks has been implemented. Central components of this are the risk management system and the internal control system.

Accounting process/internal control system

In 2012, LEG established an internal control system in line with the relevant legal provisions and industry standards that comprises principles, procedures and measures aimed at ensuring proper accounting and procedures. Regarding the accounting process, the aim and purpose of the internal control system is to ensure the application of statutory requirements and the correct and complete recording of all transactions. Regarding business processes, which are divided into strategic, core business, operational and central support processes, the ICS ensures that all transactions are recorded and presented accurately, completely and in accordance with statutory requirements in addition to being updated on an ongoing basis.

The internal control system (ICS) has the following objectives:

- Fulfilment of and compliance with the legal provisions and guidelines applicable to LEG
- Ensuring the regularity, completeness and reliability of internal and external accounting
- Targeted monitoring of business processes
- Ensuring the effectiveness and economic viability of business activity (in particular the protection of assets, including the prevention and identification of asset losses)

The ICS is constantly being expanded and optimised to meet business process requirements. Various processes have been revised or supplemented in the context of regular updates. Process descriptions are reviewed by the Law, Structure and Organisation department for appropriate ICS audit steps and the prevention of incentives to non-compliance prior to their implementation. As part of the reorganisation of the operating divisions, the risk control matrices ("RCM") of the core business processes were completely revised. In addition, a new software solution was introduced in 2018 that integrates the mapping of – and standardises – business processes and ICS functions.

LEG's Internal Audit conducts process-independent audits to monitor the effectiveness of the internal control system. On this basis, the Supervisory Board and the Audit Committee review the functionality of the internal control system with respect to the accounting process.

The key features as regards the (consolidated) accounting process are summarised as follows:

- LEG has a clear and transparent organisational, control and management structure.
- The duties within the accounting process are clearly defined and explicit roles are assigned.
- Self-control, the dual/multiple control principle, the separation of functions and analytical audit procedures are central elements in the accounting process.
- The accounting process is aided by standard software in that IT authorisations reflect the authorities described in the guidelines and thereby guarantee system control.
- There is integrated central accounting and central controlling for the key Group companies.
- The uniform Group-wide accounting, account assignment and measurement criteria are regularly examined and updated.

Compliance management

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance management system is designed for the day-to-day business.

The main principles for conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be found on our website. As a guideline for proper conduct, it assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who can guarantee the whistleblower anonymity as far as the law allows. The information is investigated and measures are taken as appropriate.

The regular analysis of compliance risks in combination with the early recognition of significant business and litigation risks, and the corresponding countermeasures, are at the heart of the compliance system.

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system with the external ombudsman. Permanent benchmarking against other compliance management systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance management system. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor in 2016. LEG also intends to have its compliance management system certificated by the Institute for Corporate Governance in the German Real Estate Industry. The auditing process required to do so was conducted at the end of 2018.

Compliance is assigned to the Law, Structure and Organisation department, whose head reports directly to the CEO of LEG.

The Audit Committee of the Supervisory Board discusses the topic of compliance on a regular basis and reports to the Supervisory Board accordingly. In the event of urgent notification of serious cases, the Management Board and the Supervisory Board committees are promptly informed of significant developments in the area of compliance.

Risk management

LEG Immobilien AG has a Group-wide risk management system (RMS). A key component of LEG's risk management system is the Group-wide risk early warning system. This system is supported by the "R2C_RM" IT tool.

The coordination and monitoring of the overall system, the organisation of processes, methodological and instrument responsibility for the IT tool used fall within the purview of Controlling & Risk Management. The organisational structure that has been implemented thus allows uniform, traceable, systematic and permanent procedures. As such, the conditions have been created to identify, analyse, assess, control, document, communicate and track the development of risks. The risk early warning system satisfies the general legal conditions and ensures audit security.

LEG's risk early warning system was examined by an auditing company regarding the requirements of the German Stock Corporation Act as part of its audit of the annual financial statements. The audit found that the Management Board has taken the measures prescribed by section 91(2) AktG on establishing an appropriate risk early warning system and that the risk early warning system is suitable for identifying developments that could jeopardise the continued existence of the company at an early stage. The regulatory requirements of LEG's risk early warning system were satisfied this year as well.

The risk management system in place is subject to a constant process of development and optimisation to adapt it to new internal and external developments. For instance, further methodological optimisation was implemented and an even more effective risk management tool was introduced in the financial year.

On account of its business activities, the LEG Group is exposed to an interest rate risk that results in particular from the conclusion of floating rate liabilities and the maturity of interest-hedged liabilities over time. The interest rate risk is hedged using derivative financial instruments such as interest rate swaps or fixed interest agreements. They serve to hedge the financial expense of financial transactions. The aim is to reduce the effect of volatilities on earnings and cash flows arising from changes on the interest markets. Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The Treasury policy prohibits the use of derivatives for speculative purposes.

At an operating level, the results of the quarterly risk inventories are reported to the decision-making and supervisory committees. The Management Board and Risk Management also discuss the assessment and management of the risks identified and resolve and implement changes as necessary. In addition to the quarterly risk reports to the Management Board, material risks with a potential gross loss (before measures) of EUR 0.2 million or more are immediately reported to the Management Board.

The foundation for all reporting is the risk inventories, for which the uniform, traceable, systematic and permanent procedures are based on the following assessment content and schemes for risks.

The risk inventory reports derived from the risk inventories also include a so-called trend radar for an early recording of potential strategic chances.

Assessment content/schemes

In a uniform risk catalogue system – broken down by categories and their subcategories – risks are calculated and assessed by the risk owners as part of a non-central, bottom-up analysis. The risk catalogue comprises both strategic and operational risks. To help substantiate and prioritise risks at LEG, they are assessed and classified according to gross liquidity impact and probability of occurrence.

The benchmark for assessing and classifying the potential impact is the effect on liquidity and business planning. The individual risk assessment is therefore always based on the corresponding change in liquidity and the five-year business plan adopted by the Supervisory Board.

LEG uses a risk assessment matrix consisting of four categories for the liquidity impact of risk notifications. A risk assessment model with four groups has also been established for probability of occurrence.

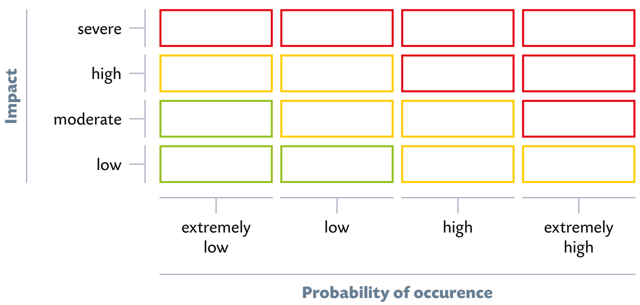
The individual categories for liquidity impact are as follows:
Gross impact
a) Low: between EUR 0 million and EUR 0.5 million
b) Moderate: between EUR 0.5 million and EUR 2.25 million
c) Significant: between EUR 2.25 million and EUR 11.25 million
d) Severe: upwards of EUR 11.25 million

The categories for the probability of occurrence are as follows:
Probability of occurence
a) Extremely low: between 0.0 % and 5.0 %
b) Low: between 5.1 % and 20.0 %
c) High: between 20.1 % and 50.0 %
d) Extremely high: between 50.1 % and 100.0 %

This model forms the basis for an assessment matrix that uses a traffic light system (red, yellow, green) to classify the individual risk notifications in terms of their expected values (gross impact multiplied by probability of occurrence):

G10

Risk matrix



Overall Assessment of risks and opportunities

General risks such as macroeconomic risks and market risks are first discussed below. Continuing from the overall risks, those that the company feels are particularly relevant have been described together with the measures used to control them. Overall, the Management Board does not expect any risks to the continued existence of the LEG Group as a whole for the 2019 and 2020 financial years.

Beyond the risk categories used for internal risk detection and monitoring, the company is exposed to the following general risks

Risk Reporting

Macroeconomic risks

The German property market is influenced by general economic factors beyond LEG's control. The development of the domestic and foreign economy, and of the financial markets as well, can therefore give rise to risk factors for LEG's business model.

Germany's economy is still continuing its upward trend, but it has clearly lost momentum recently. This primarily reflects capacity bottlenecks, problems in the automotive industry and deteriorating conditions for foreign trade. Last year's export-driven boom in the eurozone also cooled off in 2018, stymied in particular by global uncertainties regarding the US trade dispute, Brexit and Italy's public debt, which all pose future risks. In light of this, economists have recently lowered their forecasts for Germany. Nonetheless, domestic economic forces are expected to remain intact and so no recession is anticipated.

Major deterioration of the macroeconomic environment could have a negative impact on the German labour market and the income of private households, and thereby adversely affect LEG's letting business. In the long-term, unfavourable demographic trends could also weaken domestic demand and lead to shortages on the labour market. Furthermore, there is the risk of rising interest rates on the financial markets. A significant increase in interest rates could have a negative impact on the valuation of properties and, in the medium term, on LEG's financing conditions as well.

When it comes to the megatrend of digitisation, employment and income opportunities are likely to outweigh the risks in the long run. Further opportunities lie in a significant acceleration of the global and European economy and in immigration and the resulting increase in demand for affordable housing on the German property market.

Market risks

LEG's property portfolio's geographical focus is on the state of North Rhine-Westphalia. Properties were also acquired in Lower Saxony and Rhineland-Palatinate in recent years as part of the strategic expansion of the portfolio. Future purchases in these two states in addition to Hesse, as a further neighbouring state, are both possible and intended in the coming years. Purchases can be made in the whole of Germany, provided the purchase opportunities match LEG's general strategic focus.

Economic strength and the positive population and household development derived from it are key external factors that influence the attractiveness of property markets, and can differ extensively at times within the markets on which LEG operates. While conurbations in particular have enjoyed high economic attractiveness, an influx of residents and thus increased demand for housing in recent years, there is now an increased risk of flattening price trends in future, which makes is possible that the rates of increase seen in the past could no longer be matched. One reason for this could be that the financial limits of those looking for apartments have been reached, which means there will be no demand to meet further price increases on the part of housing providers. This can trigger displacement effects, which first affect the neighbouring cities of the particularly popular conurbations, and later peripheral locations and structurally weaker districts as momentum gathers. Thanks to its broad market, LEG is able to benefit as soon as catch-up effects begin to emerge on these markets.

LEG uses a wide range of internal and external data sources in assessing the future risks and opportunities of market development. In addition to publications by statistical offices, it also analyses a large number of market reports by, for instance, government sources, property service providers, brokers, associations and banks. To analyse its internal data, LEG has an extensive Group data warehouse in which all relevant information can be found, allowing conclusions about the risks and opportunities of the respective locations to be drawn from the operational development of the company's own portfolio. The positive development of the market as a whole continued again in 2018, and LEG feels that demand for housing has remained at a stable high level.

Since 2015, demand for housing has been heavily influenced by immigration compared to previous years on account of the influx of refugees. This is particularly true after migrants have gradually moved from initial housing to regular rental apartments. It is not yet clear whether this increased demand will remain in the long term, or how it will affect the housing market. Among other things, the current discussion of domestic policy decisions, for instance regarding the right to stay and family reunification, and the ongoing developments in crisis regions that have experienced the highest emigration, have an ex ante impact that is difficult to predict. As long as there is no sharp increase in repatriation to countries of origin, combined with permanently reduced immigration to Germany, continuing high demand for housing can be anticipated – especially in the low-cost market segment.

Investment and divestment decisions are made, and management processes are implemented, taking into account the forecasts for market development. In terms of investment, a positive forecast increases the probability of a positive decision to buy or invest in properties at a location. Conversely, negative market forecasts increase the likelihood of disposals, especially where value has already been added in the past but is no longer expected to the same extent moving ahead.

Property assets valuation risks

A large number of individual parameters are incorporated into the valuation of the property portfolio. Wherever possible, these are derived from market data independently of individual assessments by LEG. The most important of these parameters derived from market data are the discount rate for cash flows, the rents that can be achieved from new rentals and additions to the portfolio, macro and micro location scores based on socio-demographic and economic data, market vacancy rates and land values.

Some individual assessments are subject to assessments of the technical condition of properties, expectations regarding future inflation rates and future rent increase rates, plus the weighting of all parameters and their corresponding influence on valuation.

Despite being carefully calculated by qualified personnel, the assessment of future parameters is naturally subject to the risk of misjudgement. At the same time, a more positive development than anticipated can emerge if estimates of forward-looking parameters are too conservative.

Further risks in property valuation arise from the delay with which transaction data are included in publicly available reports and thus calculations. For example, an analysis of historical data could imply an increase in value, while the market has in fact already undergone consolidation and prices are now either stable or even in decline. Monitoring current market activity at all times reduces the risk of surprises from the delay between the time of the transaction and publication of the data.

As the investment of financial assets in properties is in competition with other forms of investment, such as stocks and bonds, the rising attractiveness of these alternative investments can have a negative impact on demand for investment property and thus lead to general price erosion. If there is a sudden and unexpected shift in the attractiveness of alternative investments, it could possibly result in an equally sudden movement on the property market. This can lead to both unexpectedly strong increases and decreases in prices, depending on the correlation between property prices and prices of investment alternatives.

Like all sectors, the property market is governed by a cycle. Given the long-term nature of property investment and the high initial costs, this cycle plays out over a longer period and therefore requires long-term forecasts. Overall, the dynamic price developments of recent years cannot simply be projected into the future. Constant monitoring of the markets for investment alternatives also helps to identify tactical and strategic risks and opportunities.

Risk categorisation

In its risk reporting, LEG classifies the identified risks based on the risk categories presented below. The table shows all relevant risk categories. Risks that are assigned to the "red" assessment range as at 31 December 2018 are considered particularly relevant. If such risks are eligible for provisions and have an "extremely high" probability of occurrence, a provision was recognised as at 31 December.

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Risk categories

Main risk category	Subcategory	Gross impact	Probability of occurrence
General business risks	No relevant risks	No relevant risks	No relevant risks
Compliance risks	Other	Severe	Extremely low
Property risks	Property management	Significant	Extremely high
Finance	Breach of covenants	Severe	Extremely low
	Rollover risk	Severe	Extremely low
Accounting	No relevant risks	No relevant risks	No relevant risks
Tax risks	a) Taxes/levies (external audit)	Significant	High
	b) Taxes/levies (real estate transfer tax)	Severe	Low
	c) Taxes/levies (input tax key)	Moderate	Extremely high
	d) Taxes/levies (property tax reform)	Severe	Low
Human resources risks	No relevant risks	No relevant risks	No relevant risks
Legal risks	a) Liability/insurance risks	Severe	Low
	b) Data protection (GDPR)	Severe	Extremely low
Information and communication risks	No relevant risks	No relevant risks	No relevant risks
Project business risks	Commercial projects	Moderate	Extremely high

Barring a few exceptions, the risk situation is essentially the same as in the previous year. New risks essentially comprise risks that are exceptionally unlikely to occur. The risks relate to the following areas:

There is one property risk (commercial management) that is very likely to occur (implementation of rent increases after modernisation). The rollover risk has been added to the area of financial risks, although this is very unlikely to occur and so is more of a theoretical risk. The tax risks category now includes political discussion regarding the reform of the property tax. Legal risks took the new GDPR into consideration, although this is also more of a theoretical risk as it is very unlikely to materialise. The legal dispute recorded in the previous year has since been settled.

In addition to the table, the main risk categories of our business model, based on the risk inventory of 31 December 2018, are explained in more detail below regardless of their valuation levels.

General business risks

This is not a relevant risk according to the LEG risk assessment matrix.

The Social Charter expired on 29 August 2018 and the former sellers confirmed that the requirements of the Social Charter had been met during its term until 29 August 2018, and so LEG now no longer considers this risk to exist. The auditor certified LEG's full compliance with the Social Charter for the prior periods and for the period from 1 January 2018 to 29 August 2018.

The former sellers did not express any objections to these reports regarding compliance with the Social Charter. If, contrary to expectations, the protective provisions are nonetheless not complied with, the terms of the Social Charter state that any violations can be rectified in full within six months of becoming known. Comprehensive compliance with the Social Charter protection provisions, which were enforceable by penalty, was mandatory for LEG until 29 August 2018. The protective provisions of the Social Charter include regulations on tenant and employee protection, business restrictions and limitations on reselling and restructuring.

Until 29 August 2018, many aspects of LEG's day-to-day business were therefore affected by the protective provisions of the Social Charter. Avoiding breaches of the social charter was always handled with the utmost sensitivity and given top priority in the LEG Group and influences all organisational processes affected, in order to avoid both the payment of penalties and the loss of reputation on the housing market that this would entail for LEG.

Looking back, the system implemented to reliably prevent violations of the Social Charter, which was reviewed and updated on an ongoing basis, was a proven success. The system comprised both a quality assurance concept and the intensive review of all measures and actions relating to the protective provisions of the Social Charter by an auditor.

Given the fundamental importance of compliance with the Social Charter to the LEG Group, the Social Charter was of course included in LEG's risk management system. Following confirmation by the auditor that the Social Charter had been complied with in full in 2017 and in the period from 1 January to 29 August 2018 and the positive response from the former sellers regarding the final 2018 Social Charter report (1 January to 29 August 2018), the risk is no longer a part of the LEG risk management system.

Compliance risks
This is a relevant risk according to the LEG risk assessment matrix.

Fraud can occur in particular where there are business, contractual or even personal relationships between employees of the LEG Group and outside persons.

Irregular lease benefits can occur in letting business. Similarly, particularly on markets characterised by housing shortages, unfair practices can occur in the attempt to be given an apartment. These risks are countered by organisational measures. Examples of these are the use of standardised lease agreements, the stipulation of target rents and advising prospective tenants that there is no commission on LEG apartments.

Services rendered by third parties can involve orders or invoices that are not consistent with market standards. This can apply to any kind of service or consulting, such as maintenance, agency or financing services. In order to prevent fraud standardised agreements including anti-corruption clauses have been prepared. There is also a Code of Conduct that is binding for all LEG employees as well as a Code of Conduct for business partners, and that all contractual partners are likewise expected to obey. A clear separation of functions between procurement and invoicing has also been introduced as a further organisational measure.

Property risks

Modernisation / maintenance risks
This is not a relevant risk according to the LEG risk assessment matrix.

Changes in legislation and regulatory frameworks relating to energy efficiency, the duty to implement safety precautions and tenant protection can affect the economic viability of planned measures or necessitate previously unplanned measures. The monetary impact of such requirements can usually be calculated in advance on account of the corresponding implementation periods, and are thus included in LEG's business planning.

However, 2018 was particularly characterised by unpredictable legislative changes that had not been previously discussed with the relevant associations, were not envisaged in the coalition agreement and that have a negative impact on property owners. This means that further risks resulting from political processes could arise in future that cannot currently be predicted. Increased contact with politicians can help minimise these risks to a limited extent, or should at least help make political decisions easier to predict and anticipate. Legislative changes made in 2018 affect the profitability of the modernisation measures described to tenants after 1 January 2019. Nonetheless, the lower maximum achievable yields have not yet had a significant impact on LEG's business targets and modernisation plans, as only a manageable number of cases included modernisation costs above the new maximum limit in the business plan.

Short-term and unpredictable maintenance risks, particularly with regard to the duty to implement safety precautions, are immediately subjected to a risk assessment as soon as they become known, and are minimised by corresponding structural or safety measures. In particular, such risks can be triggered by bad weather, the side-effects of mining, which used to be highly prevalent in North Rhine-Westphalia, or other natural hazards.

Regarding modernisation work, typical project deadline and cost risks can lead to a deterioration of profitability compared to planning, particularly if cost increases cannot be passed on to the tenants on account of local conditions on the rental housing market. Time delays usually merely lead to the additional revenue from rent increases due to modernisation being recognised at a later date than originally planned. As for planned additional revenue from rent increases due to modernisation, objections by tenants on the grounds of hardship or formal errors in rent increases can result in the rent increases implemented being lower than planned. All risks are prevented by continuous project controlling with multiple feedback loops if possible. Optimised purchasing and the faster implementation of projects also mean the opportunity for better results than planned.

Property management

This is a relevant risk according to the LEG risk assessment matrix.

Risks in technical management firstly result from the quality or design of the properties. Buildings from certain years or of certain types can have specific defects that require increased maintenance for these reasons. Specifically for new purchases, there is an elevated risk that – in spite of intensive technical due diligence in the purchase process – deficits will only be recognised over time and necessitate immediate measures. In addition, acquisitions could require the mandatory assumption of contracts with worse price/performance ratios than those usually agreed by LEG. Over time, contracts already in place for technical maintenance can prove to no longer be in line with market conditions, thus leading to worse price/performance ratios. Mandatory fire protection and safety requirements for properties and other building regulation requirements are further risks in technical management that can entail increased staff (in the event of special hazards) and maintenance costs for the possible elimination of deficits. To counteract or minimise these risks in technical management, LEG will continue to focus its efforts on pooling and standardising services, optimising processes and integrated service management.

In our view, risks in commercial management result from an inability to implement planned rent adjustments. In particular, post-refurbishment rent adjustments are occasionally challenged by the public and met with resistance by tenants. Acquisitions of portfolios for which former owners had already carried out modernisation measures pose a risk in that the agreed rent increases may not meet LEG's standards and so, despite careful due diligence, it cannot be ruled out that this may result in increased legal disputes and the risks regarding rent reduction claims that these entail.

Portfolio risks

This is not a relevant risk according to the LEG risk assessment matrix.

Portfolio risks are assessed on an ongoing basis to identify circumstances that can affect value early on, with the result that countermeasures can be taken as soon as possible. Technical risks lie in an unexpected and sudden deterioration in the fabric of building **> maintenance risks.** Regular property and safety inspections by qualified internal and external personnel ensure risk minimisation.

Demand risks can arise from deteriorating economic conditions and changes in tenants' housing needs, with the result that either less housing is sought after on certain markets in general, or a decline in demand for a particular type of apartment most common at LEG. Changes in demand are monitored by LEG in the context of its management processes, and corresponding measures are taken if permanent shifts occur. On the supply side, increased competition can lead to apartments of a similar quality being offered by competitors in the immediate vicinity at the same or lower prices. Increased new construction activity will also increase the supply of housing, and could reduce LEG's occupancy rate or rents. Ongoing competitive analyses based on available market data and local management expertise, combined with LEG's specific service offerings, reduce the risks on the supply side.

Risk of rent default

This is not a relevant risk according to the LEG risk assessment matrix.

As a housing company, LEG is subject to the risk of lost rent. Precautions are taken to minimise this risk with standardised credit checks for rentals, and by identifying problematic leases as part of active receivables management. This also entails initiating appropriate countermeasures. The risk of loss of rent exists in individual cases. This risk is reflected in accounting by recognising allowances in an appropriate amount.

Acquisition risks

This is not a relevant risk according to the LEG risk assessment matrix.

The possible acquisition of new properties is constantly under review as part of LEG's structured acquisition activities. Internal and external experts are involved in assessing the risks and potential. This enables reliable assessments of the quality of properties, optimisation measures and their (rent) development. Furthermore, general parameters such as the human resources required and refinancing options are also calculated.

In addition to the risk of an incorrect assessment of acquisition parameters, there is also the risk that information negatively influencing economic assumptions becomes known only after the conclusion of acquisition activities, and thus affects the profitability and value of properties. As far as possible these risks are hedged against by guarantees or declarations by sellers in purchase agreements with guarantors of sufficiently high credit standing or for which money is deposited in notarial accounts in individual cases. However, these guarantees are subject to minimum value thresholds and a maximum total damage amount. In individual cases, matters relevant to an audit are subjected to an additional audit in order to identify any risks because the seller either has a poor credit rating or is unwilling to make the corresponding declarations. There is also the opportunity that the properties acquired perform better than expected in terms of rent, quality and occupancy rate as a result of extensive rent and neighbourhood management by LEG.

In share deals, in which usually 94.9 % of the shares in the target property company are held, LEG has the obligation to find an investor for the remaining minority interest, or alternatively to take on this minority interest itself, by a fixed date. The latter poses a risk in that the subsequent acquisition of the minority interest would trigger property tax for the entire transaction, which is not generally part of the underlying business plan.

Sales risks

This is not a relevant risk according to the LEG risk assessment matrix.

Sales activities consist of the privatisation of individual apartments and the sale of individual properties for management and portfolio optimisation. Likewise, an entire company that holds properties can also be sold. This relates to residential and commercial properties. There are risks that the planned purchase prices are not possible on the market. After sales have already been made, guarantees can be violated leading to a subsequent reduction in the purchase price or, in the event of the buyer's failure to comply with contractual obligations, the rescission of agreements.

The structured sales process applied at LEG guarantees the safe selection of disposal portfolios, the intrinsic value of the properties being sold and the credit and integrity of buyers. The currently high demand on the transaction market, even for opportunistic properties, is seen as an opportunity and can be leveraged to selectively sell properties that are not a good fit for LEG's core portfolio in the long term.

Finance risks

Rollover risk

This is a relevant risk according to the LEG risk assessment matrix.

Rollover risk describes the risk that, when financing expires, follow-up financing cannot be prolonged or cannot be prolonged at the anticipated conditions, thereby necessitating the repayment of financing. This risk is limited at the LEG Group thanks to the long-term financing structure and the distribution of maturities over a period of several years. The rollover risk is also very minor thanks to the currently consistently good finance market environment.

The overall rollover risk for the years ahead has been reduced further by early refinancing in 2018. The next long-term follow-up financing with a volume of more than EUR 100 million is not scheduled until the 2021 financial year. The convertible bond of EUR 300 million matures in the same year. Based on the performance of LEG's shares to date, we currently assume that convertible bond holders will choose the option of conversion into shares and not repayment.

LEG occasionally uses commercial papers to meet short-term financing requirements. In the currently capital market environment, the risk that commercial papers cannot be placed or prolonged is considered low. In addition, LEG has sufficient cash and cash equivalents and credit facilities at its disposal to minimise refinancing risks.

Breach of financial covenants

This is a relevant risk according to the LEG risk assessment matrix.

Failure to comply with contractually agreed financial covenants can lead to the risk of extraordinary termination of financing agreements. A breach of financing agreements can also lead to higher interest payments, special repayments or the realisation of the collateral provided.

An internal control process has been implemented at LEG to ensure compliance with financial covenants. The covenants stipulated in financing agreements were complied with at all times in the past financial year. There are no indications that financial covenants will not be complied with in future.

Stability of bank partners (banking market)

This is not a relevant risk according to the LEG risk assessment matrix.

In light of the long-term business relationships, the stability of core banks is a key criterion for the LEG Group. Stability in this context refers to both the consistency of business policy and the economic strength of financing partners. A deterioration in the economic situation of a bank or the banking market as a whole can trigger the risk of a change in the financing partners' business policy, possibly resulting in more restrictive lending, higher margins and thus ultimately rising relative costs of debt.

The default of a financing partner can have an adverse economic impact, particularly under contractual arrangements that give rise to claims on the part of LEG, e.g. derivative interest hedges. The internal guidelines for concluding new interest rate hedges therefore provide corresponding minimum requirements regarding the counterparty's credit rating.

Liquidity risk

This is not a relevant risk according to the LEG risk assessment matrix.

Ensuring solvency at all times is constantly monitored by means of a rolling liquidity plan. The binding internal treasury policy stipulates that a defined minimum liquidity reserve must be maintained. Sufficient liquidity was available to cover the company's obligations at all times in the past financial year. Given the highly stable cash flow from the management of residential properties, no circumstances that could give rise to a liquidity bottleneck are currently foreseeable.

Changes in interest rates

This is not a relevant risk according to the LEG risk assessment matrix.

Interest rate risk essentially relates to financing agreements for which there is no long-term interest agreement. More than 90 % of bank liabilities are hedged on a long-term basis by way of fixed-rate agreements or interest rate swaps, hence there are no significant foreseeable interest rate risks.

Debt risk

This is not a relevant risk according to the LEG risk assessment matrix.

The leverage ratio has a significant effect on the assessment of LEG's economic situation and therefore on its access to the financing market. In future as well, LEG is planning a conservative debt ratio and a further improvement in the results of operations with consistently low average interest expenses. Analysts, banks and the rating agency Moody's (Baa1, stable) attest to the LEG Group's strong market position with regard to its debt ratio. A deterioration of these credit assessments is not expected.

Accounting risks

This is not a relevant risk according to the LEG risk assessment matrix.

Accounting risks can result from a failure to comply with statutory regulations, which could lead to incorrect annual, consolidated or quarterly financial statements. In addition, risks can result from further regulatory requirements, such as the German Corporate Governance Code, from disclosure obligations or from operating cash inflows or outflows. Consequences of this could include, for example, a qualified audit opinion or record of denial with respect to annual and consolidated statements, a loss of reputation or an impact on the share price.

Regarding its accounting process, LEG has implemented an effective internal control system with the goal of counteracting these risks. Please also see the description of the internal control system in the risk report.

Tax risks

This is a relevant risk according to the LEG risk assessment matrix.

Taxes and duties

Tax risks can arise from external audits and, if they occur, achieve a relevant magnitude. The LEG Group is currently being audited for the years 2009 to 2012; the audit for the years 2013 to 2016 has already started.

The tax regulations on the interest expenses disallowance rule apply to LEG. In line with this, net interest expenses (i.e. after deduction of interest income) are tax-deductible up to 30 % of taxable EBITDA. Higher interest deductibility is permitted, among other scenarios, if the Group's equity ratio is not significantly higher than the equity ratio of the individual operation (referred to as the escape clause). The LEG Group has utilised the escape clause in the past.

The end of development business, with the simultaneous purchase of residential units, could have had an impact on the LEG Group in line with the level of the general input tax key.

In the opinion of the tax authorities, when acquiring shares in property companies with upstream separation measures, a higher assessment base can be used for transfer taxes.

A fundamental property tax reform is planned based on guidelines from the German Federal Constitutional Court. The proposals under discussion would impact the entire real estate sector, but no corresponding bills have yet been tabled.

Human resources risks
This is not a relevant risk according to the LEG risk assessment matrix.

Human resources management faces major strategic challenges in irreversible megatrends such as demographic and technological change and the changing values of younger generations. LEG will meet these challenges mainly with life phase-oriented HR development and with measures and activities geared to the needs of current and future staff that contribute to LEG's employer branding and the work-life harmony of its employees. With innovative HR management instruments, LEG is lastingly ensuring its attractiveness and appeal as an employer while also allowing these aspects to evolve constantly. In 2018, LEG laid the groundwork for attaining the coveted "work and family" seal. We also finalised preparations to introduce flexible working hours.

Being and remaining an employer of choice requires a variety of measures to motivate qualified employees and managers in the long term and to ensure their loyalty to the company. LEG achieves this with a modern, pleasant working environment, attractive remuneration and the opportunity to develop personally. Activities that promote team spirit outside day-to-day business also play an important role for us.

Legal risks

Liability/insurance risks
This is a relevant risk according to the LEG risk assessment matrix.

All employees and executive bodies of the LEG Group must comply with the statutory regulations on insider trading (Market Abuse Regulation). Violations mean the personal liability of those concerned and a loss of reputation by LEG; there are also significant risks of fines for LEG. A risk relevant to the LEG Group could result from this.

Information on the LEG Group is regularly analysed for its significance to the LEG Group and, if the legal requirements are met, categorised as insider information – sometimes even just as a precaution. If information really is insider information, it is communicated only among a select group of participants and the participants are expressly advised that this is confidential.

Furthermore, there are statutory lists of insiders and the persons on it, and persons likely to come into contact with insider information, receive special instruction – as soon as such insider information exists. In addition, there is an ad hoc committee that, firstly, can be reached at all times to discuss developments at short notice by using a group e-mail address created for this purpose and corresponding telephone directories; secondly, this committee meets regularly to discuss project issues and other fundamental issues concerning LEG's ad hoc obligations. Finally, technical measures have been set up to guarantee the technical publication of ad hoc disclosures at all times. As a result of these measures, the probability of occurrence of these risks is rated as low. Finally, the LEG Group is protected against any claims under securities trading law with basic insurance.

Contract risks
This is not a relevant risk according to the LEG risk assessment matrix.

Risks in connection with warranties and legal disputes arise in particular from purchase and sale projects and the contracts on which they are based. Sufficient provisions for these were recognised in previous years.

Legal disputes
This is not a relevant risk according to the LEG risk assessment matrix.

In legal disputes, LEG distinguishes between active and passive proceedings. Active proceedings are all proceedings within LEG in which it is claiming a receivable. These can be payments in arrears under leases (low disputed values/high number of cases) or other claims, such as defect warranty proceedings from former construction activities (high disputed values/low number of cases). Active rental proceedings (rent receivables) are conducted out of court by the officers in charge (receivables management) and, if unsuccessful, reviewed by case management, a unit within Law, Structure and Organisation (RSO) , and then passed on to a law firm. Active proceedings with a high disputed value are first examined by the RSO department in terms of the prospects of success. Thereafter a third-party lawyer may be engaged to collect the receivable. The further development of such proceedings is monitored by RSO.

Passive proceedings are all those in which receivables are claimed from LEG. Passive proceedings are always first passed on to the RSO department. It assesses the prospects of successfully defending against the claim and a third-party lawyer may be engaged to do so. The further development of such proceedings is monitored by RSO.

Claims are made against LEG on various grounds. The most common of these in terms of volume are past sales of properties or shares, and in connection with the intended use of subsidies. The risk reported last year concerning the recalling of subsidies no longer exists as the matter has been settled.

Other legal risks, legislative changes and data protection

This is a relevant risk according to the LEG risk assessment matrix.

General legal risks and, in the event of the risk materialising, the disadvantages to LEG can arise in particular if legal stipulations are not or only insufficiently complied with. In addition, risks can arise if new laws or regulations are passed, or existing ones are amended, or if the interpretation of laws and regulations already in place changes. For example, risks can result with regard to technical building facilities or the conditions of the rental agreements for LEG's residential properties. Examples of new legal developments and requirements include rent control legislation and requirements under the new EU General Data Protection Regulation (GDPR). LEG has assigned specialist employees to monitor these developments in order to identify risks early and to prevent potential penalties or compensation for damages. If risks occur, LEG minimises their impact through appropriate organisational measures, such as implementing modernisation measures or amending contracts and processes. Provisions and write-downs are recognised as necessary.

Information and communication risks

IT risks

This is not a relevant risk according to the LEG risk assessment matrix.

LEG Immobilien AG uses SAP/BlueEagle as its ERP system throughout the Group. We also make use of additional, integrated special applications for business processes relating to competition. Corresponding redundancies are available if the systems are operated in-house. Cloud-based components are secured via service contracts with the relevant service providers. The entire IT infrastructure is kept up-to-date using industry standard security procedures. Regular penetration tests check the effectiveness of IT security measures. Users are made aware of IT security and data protection on an ongoing basis.

Project business risks

Commercial/technical project business risks

This is a relevant risk according to the LEG risk assessment matrix.

The relevant risks subject to a review of the contractually agreed conditions without a legal discussion include –with a declining tendency for third parties – reviews of subsidies that may be claimed excessively or the implementation of a type of building use (e.g. of higher value) other than that contractually intended, or the processing of warranty defects not covered by a warranty bond. To prevent such risks from occurring, records and files are analysed and assessed in close coordination with the institution conducting the review (e.g. funding agencies). Provisions of a sufficient amount have already been recognised for the transactions currently ongoing. Moreover, there are a few new construction activities for LEG's own portfolio; these are consistently controlled and monitored to avoid risks.

Risks of an investment in a biomass combined heat and power station

This is not a relevant risk according to the LEG risk assessment matrix.

LEG is the majority shareholder in a biomass heating power plant. The complex technology could cause unplanned downtime, thereby leading to relevant risks. These risks include lost revenue or unplanned costs of repairs. Audits are carried out on a regular basis in order to prevent these risks. The system is currently generating stable operating income thanks to the work done and the positive market environment.

Other project business risks

This is not a relevant risk according to the LEG risk assessment matrix.

The risks in the Development area will continue to diminish thanks to active risk management. The risks identified from old projects have largely been processed. The necessary provisions have been recognised. It is assumed that the measures taken will fully cover any potential future charges. There are no signs of any additional hidden liability risks from our former Development business.

Report on Opportunities

In addition to the opportunities discussed in the risk section, the significant opportunities of the LEG Group, which have not changed substantially since the previous year, are listed below:

With around 134,000 residential units as at 31 December 2018, LEG Immobilien AG is one of the leading property managers and listed residential housing companies in Germany. Its regional focus is on the North Rhine-Westphalia (NRW) metropolitan region. A consistently value-oriented business model geared to growth and a focus on customers reconciles the interests of shareholders and tenants. LEG's growth strategy is aimed at the sustainable growth of its existing portfolio, the selective expansion of tenant-oriented services and value-adding acquisitions. Demand for affordable housing is rising, and is being accelerated by the current high migration figures into urban areas especially.

One important growth driver is leveraging economies of scale through selective external growth. Around 49,700 residential units in total have mostly been notarised and transferred to LEG's portfolio since its IPO. Around 3,960 of these residential units were acquired in 2018. Further acquisitions are planned. The regional focus is on the existing core markets with the highest synergy potential, and will be expanded at their geographical borders in accordance with LEG's management platform.

LEG is excellently positioned and is experiencing continuous rental growth above the market average. This reflects the quality of the property portfolio, LEG's management expertise and the resistance to economic fluctuations. The main growth drivers in free-financed housing are regular rent index adjustments, adjustments in line with market rents particularly on new rentals and value-adding investments. The cost of rent is adjusted at regular intervals in the rent-restricted portfolio. As rent control will be steadily phased out in parts of the rent-restricted portfolio in the coming years, this will also mean the potential for at times high rent adjustments. The like-for-like occupancy rate can also be increased as an additional opportunity.

Forecast Report

The LEG Group achieved the most important targets it set itself for the 2018 financial year. In what follows, the key performance indicators achieved are compared against the forecast from the previous year.

FFO (Funds from Operations) is the key financial earnings indicator in the property sector. For the 2018 financial year, LEG had defined FFO I in a range between EUR 315 million and EUR 323 million. In the 2018 financial year, LEG achieved an FFO of EUR 318.6 million, a figure in the middle of the forecast range.

At 3.0 % to the end of 2018, rent growth per square metre on a like-for-like basis – another key operating figure – was exactly at the level of the forecast target of 3.0 %. The target for 2019 rental growth was communicated in 2017. During the year, the figure of c.3.5% (like-for-like) was moved down slightly to 3.0% to 3.2% (like-for-like). The LEG sees attenuating effects from the intensified regulatory conditions and the shortage of craftsmen which could result in delays for modernisation measures. A further slight vacancy reduction as at the end of 2017 was assumed for the 2018 financial year. As of the 2018 reporting date, the like-for-like vacancy rate was 3.3 %, the same level of the comparable figure of 3.3 % from the previous year.

In the current market environment, LEG sees opportunities for implementing value-enhancing modernisation measures. Thus in the 2018 financial year, a target figure of approximately EUR 29 per square metre was envisaged for maintenance and portfolio modernisation. During the year, this target figure was largely confirmed with a forecast figure of approximately EUR 30 per square metre. At EUR 29.4 per square metre, actual investments were thus within the range of expectation.

Value-adding acquisitions are a key element of the growth strategy LEG is pursuing. In its core region of NRW, LEG considers it has a good positioning as a buyer. The transaction market was challenging in the reporting year, as was the case in the previous year. Nevertheless, in its core market LEG managed to acquire approximately 4,000 residential units.

LEG bases its business model on a strong balance sheet. In the 2018 financial year, a maximum of 45 % was set for the loan to value ratio (LTV). With an LTV of 40.7 % on the reporting date, LEG was within its target range of 40% to 45 %.

As forecast, net asset value (NAV) was positively influenced by rent development, but also by a further widening of the valuation multiples. Price momentum in the market thus led to value growth of the property portfolio well in excess of rental performance. Pro forma NAV (not including goodwill) per share thus increased in the reporting year by 15.4 % to EUR 93.40 per share. In order to further improve transparency, the pro forma NAV (excluding goodwill) clearly indicates the effects in connection with a potential conversion of the convertible 2014/2021.

Outlook 2019

Economic research institutes expect moderate economic growth in 2019. According to the Ifo Institut estimate, real gross domestic product in Germany is set to rise by 1.1 % in 2019.

LEG feels it is well positioned to benefit from the favourable supply and demand situation for affordable housing in Germany. Demand is likely to be supported further by ongoing net immigration. For financial year 2019, LEG is thus anticipating a further upturn in rental income, which is further underpinned by investments in the portfolio. In combination with further efficiency-enhancing measures, a strong upturn movement of the FFO I is expected with a correspondingly higher dividend.

The following forecast for the key financial and operating performance indicators has been prepared on the basis of the positive fundamental conditions.

FFO I

LEG expects to generate FFO I of between EUR 338 million and EUR 344 million in 2019. A further increase to between EUR 356 million and EUR 364 million is assumed for 2020, which is also promoted by the expected positive effects from a medium-sized acquisition in 2018. This range does not take account of any additional effects from possible future acquisitions.

The following development is forecast for other relevant key figures

Rent

LEG is anticipating like-for-like rental growth of between 3.0 % and 3.2 % in the 2019 financial year. In 2020, there will be a scheduled cost rent adjustment so that for the 2020 financial year a slight acceleration of rental growth to 3.2 % to 3.4 % (like-for-like) is anticipated.

Vacancy rate

After a stable development in 2018, a slight decline of the like-for-like vacancy rate is anticipated for 2019.

Maintenance and capital expenditure

While maintaining high capital efficiency, LEG's management strategy is geared towards preserving the quality of the portfolio and selectively leveraging opportunities for value-adding capital expenditure. In 2019, approximately EUR 30-32 per square metre is to be invested for maintenance and modernisation work, the higher share remaining for measures which can be capitalised and which add value.

Acquisitions

Assuming a suitable supply situation on the market, LEG remains well positioned in NRW to further expand its leading market position in NRW via acquisitions.

LTV

To the 2018 year-end, LTV declined further to 40.7 %, primarily due to measurement gains. In order to safeguard its defensive long-term risk profile, it is intended that the LTV will remain in a target corridor of 40 % up to a maximum of 45 % in 2019.

NAV

LEG assumes that the projected positive rental performance will also be reflected in a positive value development in its property portfolio, which in turn will have a positive effect on NAV. However, the ratio of rental growth to value development, which is expressed in the change in the rental yield on the property portfolio, is extremely difficult to forecast. Among other things, the required yield level for residential properties is influenced by the performance of other asset categories and the development of interest rates and therefore cannot be forecast.

Dividend

LEG has adjusted its dividend policy in May 2018 and is now planning to distribute 70 % (previously: 65 %) of its FFO I to shareholders as a dividend on a sustained basis.

Remuneration Report

The remuneration report outlines the structure and amount of the remuneration paid to the members of the Management Board and the Supervisory Board. The report is based on the recommendations of the German Corporate Governance Code (DCGK) and the requirements of the German Commercial Code (HGB).

Preliminary remarks

Mr Holger Hentschel left the Management Board of LEG Immobilien AG as at 30 September 2018. The contract signed with Mr Hentschel provided for his appointment to continue until 31 December 2019. The Supervisory Board and Mr Hentschel reached a mutual understanding on the early termination of his work on the Management Board as at 30 September 2018.

On 13 September 2018, Mr Lars von Lackum was appointed as a member of the company's Management Board effective 1 January 2019. He now holds the newly created role of Chief Digital Officer (CDO).

Remuneration system of the Management Board

The remuneration system takes into account joint and individual performance with a view to ensuring the company's sustained success. The remuneration system is performance-based and success-based. A long-term focus, appropriateness and sustainability are key criteria.

The remuneration of the members of the Management Board consist of a fixed component (basic remuneration), a variable component with a short-term incentive function (STI) and a variable component with a mid to long-term incentive function (LTI) for the whole of the 2018 financial year.

The respective target values for the individual remuneration components developed as follows:

T34

Remuneration components

in T€	Thomas Hegel CEO	Eckhard Schultz CFO	Holger Hentschel COO
Fixed remuneration	628	568	433
One-year variable remuneration (STI)	374	359	288
Multi-year variable remuneration	449	419	345
Total remuneration	**1,451**	**1,346**	**1,066**

The maximum total remuneration granted in return for the work of the respective member of the Management Board for one financial year – including basic remuneration, STI, LTI (plus full utilisation of possible adjustments), special remuneration for acquisitions and benefits – is EUR 3,055 thousand for Thomas Hegel, EUR 2,808 thousand for Eckhard Schultz and EUR 1,266 thousand for Holger Hentschel. If the maximum remuneration for a financial year is exceeded, the payout of the LTI tranches for the corresponding financial year will be reduced.

Fixed remuneration component

The members of the Management Board receive their basic remuneration in twelve equal monthly payments (pro rata temporis). In the event of temporary incapacity, LEG Immobilien AG will pay the remuneration in the same amount for a continuous period of up to six months.

With the change of the Management Board agreements dated 17/18 May 2018 effective 1 January 2018, the basic remuneration for Thomas Hegel was increased from EUR 520 thousand p. a. to EUR 628 thousand p. a, for Eckhard Schultz from EUR 468 thousand p. a. to EUR 568 thousand p. a. and for Holger Hentschel from EUR 350 thousand p. a. to EUR 433 thousand p. a.

In addition to basic remuneration, the Management Board receives contractually agreed benefits. The members of the Management Board receive standard contributions of up to 50 % of their private health and long-term care insurance, however, this is limited to the amount that would be owed if the respective member had statutory health insurance.

If members of the Management Board are voluntarily insured under the statutory pension scheme or are members of a professional pension scheme in place of the statutory pension scheme, 50 % of the standard contributions to the statutory pension scheme are paid. This is capped at an annual payment of EUR 15 thousand.

Furthermore, LEG Immobilien AG provides its Management Board members with an appropriate company car for business and private use. All costs of its upkeep and use are paid by the company. In addition, members of the Management Board can use the services of a driver for official journeys.

The monetary value arising from private use is capped at EUR 80 thousand for Thomas Hegel and Eckhard Schultz and EUR 30 thousand for Holger Hentschel. The wage and income taxes on these benefits are paid by the respective member of the Management Board. Members of the Management Board are also reimbursed for expenses and travel costs.

Furthermore, LEG Immobilien AG has taken out accident insurance for the members of the Management Board which also covers accidents outside work. The payout to the insured party or his heirs amounts to not more than EUR 500 thousand in the event of death and EUR 1 million in the event of invalidity.

D&O insurance has also been taken out for the members of the Management Board. In accordance with the German Corporate Governance Code, the D&O insurance policies each include a legally permitted deductible of 10 % of the loss, limited to 1.5 times the fixed annual remuneration per calendar year. The appropriateness of the deductible is reviewed annually.

Variable remuneration component with a short-term incentive function (STI)

The basis of calculation for the STI is the attainment of the following four sub-targets defined in the respective consolidated IFRS business plan of the company. The business plan resolved by the Supervisory Board for the respective fiscal year applies. The benchmarks are based on the forecasts given to the capital market at the beginning of the year. When calculating the target figures, this is neutralised on an ongoing basis by effects from material transactions.

If the Supervisory Board does not resolve a business plan for the respective fiscal year, the four sub-targets for the purposes of the STI are defined by the Supervisory Board at its discretion (section 315 of the German Civil Code) with reference to the targets for the previous year.

The STI consists of an annual payment measured on the basis of the following four targets:

- Net cold rent
- Net rental and lease income
- Adjusted EBITDA
- Funds from Operations I per share (weighted average number of shares in the financial year)

The first three targets each account for 20 % and the final target for 40 % of the STI if each sub-target is achieved in full. The attainment of each individual sub-target is determined independently. However, the sub-targets can offset over- and underperformance amongst themselves. The target STI amount cannot be exceeded overall, even if the targets are outperformed. If the minimum target achievement of the sub-targets are not reached, the level of target attainment is set at zero.

In the event of changes in the basis of consolidation or capital measures during the current financial year, the respective sub-targets set in the business plan must be adjusted by the Supervisory Board. They are adjusted pro rata temporis.

Regarding the calculation of the sub-target Funds from Operations I per share, an increased number of shares resulting from capital measures for acquisition financing will be considered only after closing of the acquisition, with effect pro rata temporis.

After the end of the financial year, the level of attainment for the sub-targets is determined by the Supervisory Board on the basis of the IFRS consolidated financial statements of the company and internal accounting. The STI is then calculated accordingly.

With the change of the Management Board agreements dated 17/18 May 2018 effective 1 January 2018, the STI program in the case of a target achievement of 100% was increased - for Thomas Hegel from EUR 325 thousand p. a. to EUR 374 thousand p. a., for Eckhard Schultz from EUR 312 thousand p. a. to EUR 359 thousand p. a. and for Holger Hentschel from EUR 250 thousand p. a. to EUR 288 thousand p. a.

The calculated STI can be increased or decreased by up to 30 % by way of discretionary decision of the Supervisory Board.

In the event of extraordinary developments, after the end of the respective financial year the Supervisory Board can adjust the calculated levels of attainment and, as appropriate, the STI adjusted by way of discretionary decision by up to 20 % in either direction.

The STI to be calculated and possibly adjusted for the respective financial year is capped at EUR 486 thousand for Thomas Hegel, EUR 467 thousand for Eckhard Schultz and EUR 374 thousand for Holger Hentschel.

If the above calculation results in the payment of an STI, this must be settled and paid to the respective Management Board member no later than 30 days after the approval of the IFRS consolidated financial statements of the company.

Variable remuneration component with a long-term incentive function (LTI))

In addition to STI, the members of the Management Board are entitled to LTI based on the company's long-term development. The four-year LTI is newly awarded for each fiscal year and is spread over three performance periods of two or three years. The key performance targets for the LTI are:

- Development of total shareholder return
- Development of the company's share price compared with the relevant index, EPRA Germany.

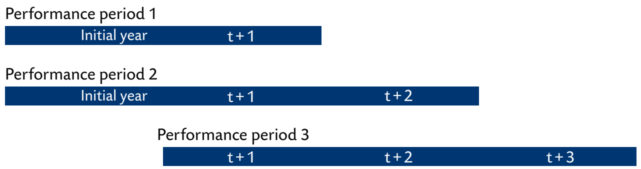
The target LTI is spread over the following three performance periods in three equal tranches:

- Performance period I: From the (proportionate) fiscal year in which the LTI is awarded (relevant fiscal year) up until the end of the first fiscal year following the relevant fiscal year
- Performance period II: From the relevant fiscal year up until the end of the second fiscal year following the relevant fiscal year
- Performance period III: From the fiscal year following the relevant fiscal year up until the end of the third fiscal year following the relevant fiscal year

Graphical display of the performance periods:

G11

Performance periods



Initial year = relevant financial year

To determine the level of average target attainment for the "Total Shareholder Return" performance target, the Total Shareholder Return in respect to the performance period must be determined on the basis of objectively determined and publicly accessible figures. If there are no objectively determined and publicly accessible figures available for this performance period, then the Total Shareholder Return is calculated on the basis of the weighted average official determination of the Company's share price over the last 30 trading days before the start of the respective performance period and its weighted official determination on the last 30 trading days of the performance period.

What is decisive for determining the level of target achievement for the "Share Performance vs. Index" performance target is the deviation of the share price performance compared to the development of the EPRA Germany in the respective performance period. For this purpose, in relation to the respective performance period the value for the development of EPRA Germany between its official determination on the last trading day before the start of the respective performance period and its official determination on the last trading day of the performance period in percent is calculated ("EPRA Germany Performance") (comparative figure). The share performance results from the average performance of the share in the performance period. To determine the initial figure, the average weighted officially determined share price of the Company for the last ten trading days of all calendar quarters in the financial year before the start of the performance period is established. The resulting figure is compared with the final figure. To determine the final figure, the average weighted officially determined share price of the Company for the last ten trading days of all calendar quarters in the last financial year of the performance period is established.

The target LTI and the individual tranches are not increased in the event of target attainment in excess of 100 %. Each tranche is separated into two equal amounts. One of the two performance targets is allocated to each of these amounts.

After the end of each performance period, the level of target attainment for the two performance targets is determined by the Supervisory Board following the approval of the consolidated financial statements for the last fiscal year of the respective performance period and the resulting amounts for the tranche are calculated. Target attainment is determined separately for each performance target and each tranche. However, netting may be performed within a tranche – providing this is mathematically possible – with the shortfall for one performance target being offset by the excess for the other performance target. Netting may not be performed above and beyond the individual tranches. The amount paid for each tranche is determined on the basis of the level of target attainment for both performance targets by adding the respective amounts thus calculated. However, the total amount for each tranche may not exceed one-third of the target LTI, even if the overall level of target attainment for both performance targets is in excess of 100 %.

The LTI achieved based on the set targets could so far be increased or decreased at the discretion of the Supervisory Board (discretionary decision) by up to 30 %. The Supervisory Board resolved on 27 September 2018 that there will be no discretionary decisions regarding the calculation of the amount to be paid under the respective LTI in future. Discretionary decisions already made for LTI tranches not yet paid remain in effect, and will be taken into account on payment.

In the event of extraordinary developments, after the end of the respective performance period the Supervisory Board can adjust the calculated levels of attainment and, as appropriate, the LTI adjusted by way of discretionary decision by up to 20 % in either direction. As a result, the amount allotted to each tranche can be undershot or exceeded by one third of the target LTI.

With the change of the Management Board agreements dated 17/18 May 2018 effective 1 January 2018, the annual LTI program in the case of a target achievement of 100% for Thomas Hegel was increased from EUR 390 thousand to EUR 449 thousand, for Eckhard Schultz from EUR 364 thousand to EUR 419 thousand and Holger Hentschel from EUR 300 thousand to EUR 345 thousand.

The LTI calculated and possibly adjusted for the respective performance period is capped at EUR 195 thousand for Thomas Hegel, EUR 182 thousand for Eckhard Schultz and EUR 150 thousand for Holger Hentschel. The total LTI available for a financial year is capped at EUR 539 thousand for Thomas Hegel, EUR 503 thousand for Eckhard Schultz and EUR 414 thousand for Holger Hentschel.

The resulting gross amount for a tranche must be settled and paid to the respective Management Board member no later than 30 days after the approval of the IFRS consolidated financial statements for the last financial year in the performance period.

At the start of each relevant financial year, the Supervisory Board and the Management Board member conclude an LTI target agreement, which contains the specifications for the two performance targets for each tranche based on the relevant performance period. If no agreement is reached, these components are set by the Supervisory Board at its discretion (section 315 German Civil Code) by reference to the targets for the previous year.

In the event of a legal end to the engagement of a Management Board member, the company can settle the tranches that will become due at a later date early. In such event the Supervisory Board and the respective member of the Management Board can mutually agree a notional target attainment rather than calculating actual target attainment. The amount of a tranche calculated based on this notional target attainment can then be reduced by 30 %.

The following specific targets apply (target corridors apply to all outstanding and resolved LTIs):

T35

Target corridors LTI

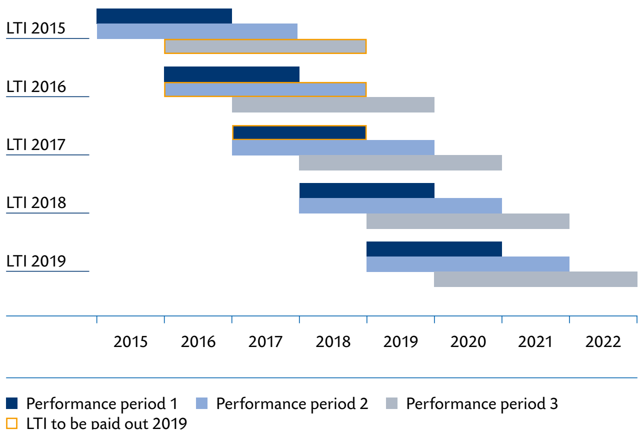
in %	Degree of target attainment 80	100	120 (Maximum)
Total shareholder return Ø p.a.	5.6	7.0	8.4
Performance against EPRA	**90**	**100**	**110**

The Supervisory Board resolved on 29 November 2018 to grant the LTI Program 2019 (Grant Date).

The following LTI programmes are outstanding or are to be paid out in 2019:

G12

Performance periods LTI



LTI to be paid out in 2019

LTI 2015 / Performance period III:
For performance period III of the LTI granted in 2015 and which is due for payment in 2019, the following figures were achieved in respect of total shareholder return:

T36

LTI 2015 / performance period 3

in %	2016	2017	2018
Total shareholder return p.a.	– 0.66	32.82	9.90
Total shareholder Return performance period 3 Ø p.a		**14.02**	

The average total shareholder return of 14.02 % p.a. was thus above the annual target of 7.0 % p.a. which was necessary to achieve 100 % fulfilment of the sub-target.

In the 2016 to 2018 reporting period, the performance against the EPRA Index was as follows::

T37

Performance against EPRA 3

in %	
Performance against EPRA	**111.10**

Thus the target of achieving the same performance of the EPRA Index was also more than achieved. Irrespective of outperforming the targets in the two tranches, the target has thus been 100 % achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI 2016/ Performance period 2:
For performance period II of the LTI granted in 2016 and which is due for payment in 2019, the following figures were achieved in respect of total shareholder return:

T38

LTI 2015 / performance period 2

in %	2016	2017	2018
Total shareholder return p.a.	– 0.66	32.82	9.90
Total shareholder Return performance period 2 Ø p.a		**14.02**	

The average total shareholder return of 14.02 % p.a. was thus above the annual target of 7.0 % p.a. which was necessary to achieve 100 % fulfilment of the sub-target.

In the 2016 to 2018 reporting period, the performance against the EPRA Index was as follows:

T39

Performance against EPRA 2

in %	
Performance against EPRA	**111.10**

Thus the target of achieving the same performance of the EPRA Index was also more than achieved. Irrespective of outperforming the targets in the two tranches, the target has thus been 100 % achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI 2017/ Performance period 1:
For performance period I of the LTI granted in 2017 and which is due for payment in 2019, the following figures were achieved in respect of total shareholder return:

T40

LTI 2015 / performance period 1

in %	2017	2018
Total shareholder return p.a.	32.82	9.90
Total shareholder Return performance period 1 Ø p.a	**21.36**	

The average total shareholder return of 21.36 % p.a. was thus above the annual target of 7.0 % p.a. which was necessary to achieve 100 % fulfilment of the sub-target.

In the 2016 to 2018 reporting period the performance against the EPRA Index was as follows:

T41

Performance against EPRA 1

in %	
Performance against EPRA	**99.46**

Thus the target of performing at the level of the EPRA Index was not completely achieved. As a result, not achieving the “Performance against EPRA” sub-target is to be calculated against outperforming the “Average total shareholder return” as follows:

1. Sub-target Total shareholder return: in line with the specific targets 21.36 % TSR p.a. represents 120 % target fulfilment

2. Sub-target Performance against EPRA: in line with the specific targets 99.46 % represents 98.92 % target fulfilment

Thus as the two sub-targets are equally weighed, the average target fulfilment is (120 % + 98.92 %)/2 = 109.46 %. Irrespective of outperforming the average targets when combining the two tranches, the target has thus been 100 % achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI not to be paid out in 2019

Due to the lack of any informative value on the actual level of payment made, no presentation is made of the current values.

Total Remuneration of the Management Board in 2018

The benefits granted to the Management Board for the 2018 financial year according to DCGK are shown in table >T42.

On the basis of the assessment of the attainment of performance hurdles, as at 31 December 2018 staff costs for the LTI 2015 to 2019 of EUR 1.7 million (2017: EUR 1.4 million) were recognised in line with IFRS and EUR 0.7 million (2017: EUR 1.4 million) in line with HGB. In line with IFRS and HGB EUR 0.4 million (2017: EUR 0.5 million) related to Thomas Hegel and EUR 0.3 million (2017: EUR 0.5 million) to Eckhard Schultz . For Holger Hentschel EUR 1.0 million (2017: EUR 0.4 million) was recognised in line with IFRS and EUR 21 thousand (2017: EUR 0.4 million) in line with HGB.

T42

Remuneration and benefits earned

	Thomas Hegel CEO				Eckhard Schultz CFO				Holger Hentschel COO			
€ thousand	**2018**	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017	**2018[1]**	2018 min.	2018 max.	2017
Fixed remuneration	628	628	628	520	568	568	568	468	433	433	433	350
Additional benefits	49	49	49	45	23	23	23	22	20	20	20	20
Total fixed remuneration components	**677**	**677**	**677**	**565**	**591**	**591**	**591**	**490**	**453**	**453**	**453**	**370**
One-year variable remuneration (STI)	374	0	486	325	359	0	467	312	288	0	374	250
Total multi-year variable remuneration (LTI)	220	0	584	173	205	0	545	161	169	0	449	133
LTI 2014 (until 2017)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2015 (until 2018)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2016 (until 2019)	0	0	0	0	0	0		0	0	0	0	0
LTI 2017 (until 2020)	0	0	0	173	0	0	0	161	0	0	0	133
LTI 2018 (until 2021)	220	0	584	0	205	0	545	0	169	0	449	0
Total variable remuneration components	**594**	**0**	**1,070**	**498**	**564**	**0**	**1.012**	**473**	**457**	**0**	**823**	**383**
Total fixed and variable remuneration components	**1,271**	**677**	**1,747**	**1,063**	**1,155**	**591**	**1,603**	**963**	**910**	**453**	**1,276**	**753**
Pension costs	0	0	0	0	27	27	27	27[2]	18	18	18	18[2]
Total remuneration	**1,271**	**677**	**1,747**	**1,063**	**1,182**	**618**	**1,630**	**990**	**928**	**471**	**1,294**	**771**

[1] Until date of withdrawl 30 September 2018
[2] Previous year's figures are adjusted

The amounts paid to the members of the Management Board in line with DCGK were:

T43

Remuneration and benefits paid

	Thomas Hegel CEO		Eckhard Schultz CFO		Holger Hentschel COO	
€ thousand	**2018**	2017	**2018**	2017	**2018**[2,3]	2017
Fixed remuneration	628	520	568	468	325	350
Additional benefits	49	45	23	22	15	20
Total fixed remuneration components	**677**	**565**	**591**	**490**	**340**	**370**
One-year variable remuneration (STI)[1]	374	358	359	343	472	248
Multi-year variable remuneration (LTI)	388	339	363	315	266	207
LTI 2013 (until 2016)	0	100	0	93	0	50
LTI 2014 (until 2017)	100	100	93	93	66	67
LTI 2015 (until 2018)	142	139	133	129	92	90
LTI 2016 (until 2019)	146	0	137	0	108	0
LTI 2017 (until 2019)	0	0	0	0	0	0
LTI 2018 (until 2020)	0	0	0	0	0	0
Total variable remuneration components	**762**	**697**	**722**	**658**	**738**	**455**
Total fixed and variable remuneration components	**1,439**	**1,262**	**1,313**	**1,148**	**1,078**	**825**
Pension costs	0	0	27	27[3]	13	18[3]
Total remuneration	**1,439**	**1,262**	**1,340**	**1,175**	**1,091**	**843**

[1] Final payment for previous financial year as well as pro rata bonus 2019 for Holger Hentschel
[2] Date of withdrawal 30 September 2018
[3] Previous year's figures are adjusted

The payments made include a discretionary factor of 1.15 for 2017.

The total remuneration of the Management Board in 2018 in line with HGB was:

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Total remuneration

	Thomas Hegel CEO		Eckhard Schultz CFO		Holger Hentschel COO		**Total**	
€ thousand	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Fixed remuneration	628	520	568	468	325	350	1.521	1.338
Additional benefits	49	45	23	22	15	20	87	87
Total fixed remuneration components	**677**	**565**	**591**	**490**	**340**	**370**	**1.608**	**1.425**
One-year variable remuneration (STI)	393	325	377	312	184	250	954	887
Multi-year variable remuneration (LTI) [1,2]	251	220	235	205	0	169	486	594
Total variable remuneration components	**644**	**545**	**612**	**517**	**184**	**419**	**1.440**	**1.481**
Total remuneration	**1,321**	**1,110**	**1,202**	**1,007**	**524**	**789**	**3,047**	**2,906**

[1] Includes LTI remuneration for 2019
[2] The previous year's figures are adjusted and only include the LTI 2018

As of 31 December 2018 (31 December 2017), Thomas Hegel owned 54,602 (54,602) LEG Immobilien AG shares, Eckhard Schultz 50,938 (50,938) LEG Immobilien AG shares and Holger Hentschel until the date of withdrawal September 30, 2018, 9,090 (9,090) LEG Immobilien AG shares.

No loans or advances were granted or extended to the members of the Management Board in the 2018 financial year.

Termination benefits

Holger Hentschel's role on the Management Board was ended by mutual arrangement as of 30 September 2018. Holger Hentschel receives in lieu of the fixed remuneration a severance payment of EUR 541 thousand for the early termination of his contract, which was due to run until the end of December 2019. Claims to additional benefits have been settled at an amount of EUR 39 thousand. LEG will pay his company pension until 31 December 2019. The pension cost amounts to EUR 12 thousand.Target achievement for the STI for the period from October 2018 to December 2019 has been set at an amount of EUR 360 thousand for 100 % achievement. The no longer granted LTI programme will be settled at a total amount of EUR 319 thousand based on a notional achievement of 100 %. A discount of 2.5 % has been deducted for tranches that would have been paid out in 2020, one of 5 % for tranches that would have been paid out in 2021, 7.5 % for those that would have been paid out in 2022 and 10 % for the tranche intended for payment in 2023.

His pension entitlements are vested and can be claimed in full fwith the beginning of the retirement.

Retirement benefits

Company pension scheme

Effective 1 February 2013, LEG Immobilien AG assumed the occupational pension commitment for the Management Board member Holger Hentschel from LEG Wohnen NRW GmbH (in accordance with section 4(2) no. 1 BetrAVG (German Occupational Pensions Act)). This grants a pension including benefits for surviving dependents. The amount of benefits is dependent on eligible service and pensionable remuneration. The pension will be paid when Mr Hentschel reaches 65 years of age. A pensionable basic salary of EUR 92,676 is assumed. The corresponding provision amounted to EUR 229,016 as at 31 December 2018 (2017: EUR 337,941) in accordance with the IFRS or to EUR 156,312 (2017: EUR 197,898) in accordance with the German Accounting Standards. The recognised staff costs in 2018 amounted to EUR 10 thousand (2017: EUR 11 thousand) in accordance with the IFRS or to an income of EUR 42 thousand (2017: expenses of EUR 16 thousand) in accordance with the German Accounting Standards.

Eckhard Schultz has a vested occupational pension (including disability insurance) via a provident fund that was also assumed by LEG Immobilien AG. Gross annual premiums of EUR 20,000 are paid. The benefits will be paid in 2025 as a lump sum payment of EUR 420,017. There are also benefits from profit participation.

In 2013 the Supervisory Board resolved to establish an employer-financed pension commitment for Eckhard Schultz and Holger Hentschel via a provident fund by way of a defined contribution plan. The additional payments by LEG Immobilien AG are limited to a maximum of 50 % of the standard contributions to the statutory pension scheme. In case of death, the provident fund will make a one-time, lump-sum capital payment to the respective dependents. When Eckhard Schultz reaches retirement age in 2032, the payments will take the form of a non-contributory monthly pension of EUR 1,736.17. When Holger Hentschel reaches retirement age in 2033, the payments will take the form of a non-contributory monthly pension of EUR 1,855.12.

No provisions were recognised for Thomas Hegel or Eckhard Schultz as at 31 December 2018.

Early termination benefits

Severance pay
In the event of the early termination of the activity of a member of the Management Board, the payments made to the respective member, including additional benefits, may not exceed the value of two years' remuneration ("severance cap") or the value of the remuneration payable for the remaining term of this employment agreement. The settlement cap is based on the total remuneration for the past fiscal year and, where applicable, the anticipated total remuneration for the current fiscal year (as recommended in section 4.2.3 of the German Corporate Governance Code).

In the event of the early termination of this agreement for cause falling within the responsibility of the Management Board member, the member will not be entitled to receive any payments.

Change of control
In the event of a change of control of the company, the members of the Management Board have the right to resign as a member of the Management Board for cause, and to terminate their Management Board contract, within a period of six months from the date of the change of control, observing a notice period of three months to the end of a month (special right of termination).

The severance regulations that apply in the event of the special right of termination being exercised stipulate that payments in connection with the cessation of work as a member of the Management Board due to a change of control amount to two years' remuneration, albeit capped at the value of the remuneration for the remaining term of the member's contract.

Death benefits
If a Management Board member dies during the term of the employment agreement, the remuneration plus STI and LTI (including deferred tranches) will be settled up until the end of the agreement as a result of the member's death and paid out to the member's heirs in accordance with the provisions of the agreement. Furthermore, the member's widow and any children under 25 shall, as joint beneficiaries, be entitled to the full payment of the remuneration set out in section 2 (1) of the employment agreement for the remainder of the month in which the member dies and the subsequent three months. However, this shall be limited to the scheduled termination of the employment agreement if the member had not died.

Remuneration System of the Supervisory Board

The Supervisory Board was constituted on 2 January 2013 with nine members. At the proposal of the Management Board and the Supervisory Board of LEG Immobilien AG, the Annual General Meeting on 25 June 2014 resolved to reduce the number of Supervisory Board members to six.

On 18 September 2015 the Supervisory Board resolved a time limit for membership of 15 years (first-time appointment plus two re-elections).

In accordance with the Articles of Association, all remuneration for Supervisory Board work is payable after the end of the fiscal year. Supervisory Board members who are only on the Supervisory Board or a committee of the Supervisory Board for part of the fiscal year receive corresponding remuneration on a pro rata basis for this fiscal year.

In accordance with the Articles of Association of LEG Immobilien AG, the following applies in accordance with Article 8.10 (old version): The Supervisory Board members receive a fixed annual basic remuneration of EUR 50,000. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson receives 1.5 times this amount. Members of a Supervisory Board committee receive an additional fixed annual remuneration of EUR 15,000; the committee chairperson receives double this. Each member receives an additional payment of EUR 2,000 for each Supervisory Board or committee meeting held in person. No remuneration is paid for membership or chairing of the nomination committee. Remuneration for the Supervisory Board is fixed and not success-based.

At the proposal of the Management Board and the Supervisory Board of LEG Immobilien AG, the Annual General Meeting on 17 May 2018 resolved to revise Article 8.10 of the Articles of Association of LEG Immobilien AG as follows as at 1 July 2018:

The members of the Supervisory Board receive fixed annual remuneration of EUR 72,000. The chairperson of the Supervisory Board receives 2.5 times this amount, the deputy chairperson receives 1.25 times this amount. Members of a Supervisory Board committee receive additional fixed annual remuneration of EUR 20,000; the chairperson of the committee receives double this amount. No remuneration is paid to the members or chairperson of the Nomination Committee. Each member receives an additional attendance fee of EUR 2,000 for each Supervisory Board or committee meeting held in person.

Members of the Supervisory Board are also reimbursed for appropriate expenses and travel costs. VAT is reimbursed by the company to the extent that the members of the Supervisory Board are entitled to invoice VAT to the company separately and that they exercise this right.

The company had also concluded D&O insurance for the members of the Supervisory Board with an appropriate insured amount and deductible. Since 1 January 2014, the D&O insurance has provided for a deductible of 10 % of the individual claim amount to be paid by the Supervisory Board members up to a maximum of 1.5 times their fixed annual remuneration for all claims within a year, as recommended in the German Corporate Governance Code.

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Breakdown of supervisory board remuneration – remuneration paid or to be paid to the members of the supervisory board for the financial year 2018

in €	Supervisory Board		Audit Committee		Executive Committee		Nomination Committee	**Total**
Name of member	Remuneration	Attendance Fee	Remuneration	Attendance Fee	Remuneration	Attendance Fee		**2018 (net)**
Michael Zimmer	140,000 Chairman	12,000			35,000 Chairman	6,000	0 Chairman	**193,000**
Stefan Jütte	82,500 Deputy Chairman	12,000	35,000 Chairman	8,000	17,500 Deputy Chairman	6,000	0 Deputy Chairman	**161,000**
Dr Johannes Ludewig	61,000 Member	12,000			17,500	6,000	0	**96,500**
Dr Jochen Scharpe	61,000 Member	14,000	17,500 Deputy Chairman	8,000	0 Substitute member	0	0	**100,500**
Natalie Hayday	61,000 Member	12,000	17,500 Member	8,000				**98,500**
Dr Claus Nolting	61,000 Member	14,000						**75,000**
Total	**466,500**	**76,000**	**70,000**	**24,000**	**70,000**	**18,000**		**724,500**

Increase in remuneration according to the AGM resolution as of 17 May 2018 is included on a pro rata basis from July 2018

Total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.7 million in 2018 (2017: EUR 0.6 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2018 financial year.

Corporate Governance Declaration in Accordance with Sections 289f and 315d HGB

As a listed stock corporation, LEG Immobilien AG issues a corporate governance declaration in accordance with section 289f and section 315d of the German Commercial Code (HGB). This includes (i) the declaration of compliance in accordance with section 161(1) of the German Stock Corporation Act (AktG), (ii) relevant information on corporate governance practices exceeding statutory requirements, (iii) a description of the working methods of the Management Board and the Supervisory Board plus the composition and working methods of their committees, (iv) targets for the participation of women in managerial positions and (v) a description of the diversity concept.

In light of this, LEG Immobilien AG issues the following corporate governance declaration:

Declaration of Compliance in Accordance with Section 161(1) AktG

The Management Board and the Supervisory Board of LEG Immobilien AG submitted the following declaration in accordance with section 161 AktG in November 2018:

"The Management Board and Supervisory Board of LEG Immobilien AG (the "Company") hereby declare that the Company has complied with the recommendations of the "Government Commission for the German Corporate Governance Code" (version dated 7 February 2017, "Code") published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 without exception since submitting its last declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) in November 2017.

Furthermore, the Management Board and Supervisory Board of LEG Immobilien AG declare that the Company currently complies with the recommendations of the Code without exception and that it will continue to do so in future.

Dusseldorf, November 2018

The Management Board of LEG Immobilien AG
The Supervisory Board of LEG Immobilien AG"

Relevant Disclosures on Corporate Governance Practices exceeding Statutory Requirements

LEG Immobilien AG is geared towards sustainable, successful portfolio management and growth. This is inseparably tied to value-driven corporate governance and corporate social responsibility, to which LEG Immobilien AG has expressed its commitment. Customer orientation, reliability and social commitment are core elements of the company's corporate philosophy. They ensure the lasting high utilisation and value of the portfolios and maintain or create a basis of trust with tenants as well as private and public-sector partners.

Promotion of local social projects

LEG Immobilien AG and its subsidiaries are committed to a number of local projects, such as tenant and district festivals and supporting cultural or social institutions and sports clubs. These measures actively promote social structures and neighbourhoods in order to strengthen the sense of identity and the bond between tenants and with the company, which in turn leads to a long-term rental partnership and appreciation that maintains value and a sense of responsibility for the neighbourhood.

LEG NRW Tenant Foundation

The charitable LEG NRW Tenant Foundation was created in 2010. With endowment assets of EUR 5.0 million, it supports individual tenants of the Group who require support on account of acute economic distress or due to their emotional, physical or mental state. Local social projects, schools and charitable initiatives are also aided on an individual and specific basis. The aim of this commitment is to create specific value added for tenants, estates and the public, for example in the form of easy access apartments or pro-integration or intercultural events.

Corporate Governance Code of the German Real Estate Industry Association

LEG Immobilien AG is a member of the Corporate Governance Institute of the German Real Estate Industry Association. At **www.icg-institut.de,** the Corporate Governance Initiative of the German Real Estate Industry Association published a "Corporate Governance Code of the German Real Estate Industry" (as at July 2017, "ICGK"), which contains industry-specific recommendations as addition to the German Corporate Governance Code. The Supervisory Board and the Management Board of LEG Immobilien AG agree that – with the exception of the provisions of item 5.3.2i – the recommendations of the ICGK should also be complied with.

Item 5.3.2.i of the ICGK recommends that the Supervisory Board, the Audit Committee or a separate valuation committee be entrusted with the valuation of the property portfolio and the selection of the valuation experts. The Rules of Procedure of the Management Board of LEG Immobilien AG currently stipulate that fundamental changes to valuation methods require the approval of the Supervisory Board. In addition, the Supervisory Board and the Audit Committee of the Supervisory Board comprehensively monitor and review the preparation of the annual financial statements in accordance with the statutory provisions and the recommendations of the German Corporate Governance Code and, in connection with this, the valuation of the property portfolio. The valuation of the property portfolio itself is performed by the company but is validated by an external property valuation expert and the auditor. Both the auditor and the external property valuation expert regularly participate in meetings of the Supervisory Board and the Audit Committee of the Supervisory Board.

Compliance

LEG Immobilien AG employs a compliance management system that bundles measurements directed at the compliance of legal provisions and internal policies especially with regard to the areas of anti-corruption, competition, taxes, product, data protection, and capital market. The compliance management system is targeted at preventing law and rule violations in the previously mentioned areas, to detect such violations and to sanction them. A whistle-blower system gives employees and third parties the opportunity to give notices on law violations in a protected environment. The compliance management system is described in > the risks and opportunities report.

Description of the working Methods of the Management Board and the Supervisory Board and the Composition and working Methods of their Committees

As a stock corporation under German law, LEG Immobilien AG has a dual management system consisting of the Management Board and the Supervisory Board. Executive management and control are clearly separated in a dual management system.

The Management Board

The Management Board manages LEG Immobilien AG on its own responsibility in accordance with the provisions of law, the Articles of Association and the Rules of Procedure for the Management Board. The Rules of Procedure for the Management Board were most recently amended by the Supervisory Board on 5 October 2018. Among other things, these stipulate that certain transactions of particular significance require the prior approval of the Supervisory Board or one of its committees. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all issues of strategy, planning, business performance, the risk situation, risk management and compliance relevant to the company. The Management Board performs its management duties as a collective body. Regardless of their overall responsibility, the individual members of the Management Board manage the departments assigned to them in the context of Management Board resolutions on their own responsibility. The allocation of duties among the members of the Management Board is based on the assignment plan.

The Supervisory Board

The Supervisory Board has six members and monitors and advises the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. Its duties and rights are determined by the legal provisions, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board most recently amended the Rules of Procedure at its ordinary meeting on 25 March 2014.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board work together closely for the good of the company. The intensive and constant dialogue between the bodies is the basis for efficient and targeted business management. The Management Board develops the strategic orientation of LEG Immobilien AG, coordinates this with the Supervisory Board and ensures its implementation. The Management Board discusses the status of the strategy implementation with the Supervisory Board at regular intervals.

The Chairman of the Supervisory Board maintains regular contact with the Management Board, particularly with the Chairman of the Management Board, and advises on issues of strategy, planning, business performance, the risk situation, risk management and compliance at the company. The Chairman of the Supervisory Board is immediately informed by the Chairman of the Management Board of key events significant to the assessment of the position and development of the company and Group companies and their management. The Chairman of the Supervisory Board then reports to the Executive Committee or the Supervisory Board and convenes extraordinary meetings if necessary.

Committees of the Supervisory Board

The Supervisory Board had three committees in the 2018 financial year: the Executive Committee, the Nomination Committee and the Audit Committee. Further committees can be formed if required.

Executive Committee of the Supervisory Board

The Executive Committee discusses key issues and prepares resolutions by the Supervisory Board. In particular, the Executive Committee discusses resolutions by the Supervisory Board on the following matters:

- The appointment and dismissal of members of the Management Board, naming of the Chairman of the Management Board
- The conclusion, amendment and termination of employment agreements with members of the Management Board;
- The structure of the remuneration system for the Management Board, including the key contract elements and the total compensation paid to the individual members of the Management Board; and
- The acquisition of property portfolios.

The Executive Committee regularly discusses long-term succession planning for the Management Board with the involvement of the Management Board. In place of the Supervisory Board but subject to the above and other mandatory responsibilities of the Supervisory Board, the Executive Committee passes resolutions on the following matters:

- Transactions with members of the Management Board in accordance with section 112 AktG
- Approval of transactions with a value in excess of EUR 25,000 between the company or one of its Group companies on the one hand and a member of the Management Board or persons or undertakings related to a member of the Management Board on the other
- Consent to other activities by a member of the Management Board in accordance with section 88 AktG and approval of other additional employment, in particular holding supervisory board mandates and mandates in similar executives bodies of companies outside the Group

- Granting loans to the persons named under sections 89, 115 AktG
- Approval of contracts with Supervisory Board members in accordance with section 114 AktG
- Any other approval required in accordance with the Articles of Association of the company or the Rules of Procedure for the Management Board for measures by the Management Board if the matter cannot be delayed and a resolution by the Supervisory Board cannot be passed in a timely manner

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte and Dr Johannes Ludewig. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. Dr Jochen Scharpe has been elected deputy member (in the case of absence).

Nomination Committee

The Nomination Committee meets as required and suggests suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The members of the Nomination Committee are the members of the Executive Committee (Mr Michael Zimmer, Mr Stefan Jütte, Dr Johannes Ludewig). The Chairman of the Supervisory Board is also the Chairman of the Nomination Committee.

Audit Committee

In particular, the Audit Committee deals with the monitoring of the accounting process, the effectiveness of the internal control system and the internal audit system, the audit of the financial statements, including in particular the independence of the auditor, the other services performed by the auditor, the granting of the audit mandate to the auditor, the determination of the key areas of the audit, the fee agreement and compliance. The Audit Committee also deals with the non-financial declaration in accordance with section 289f HGB. The Audit Committee prepares the resolutions by the Supervisory Board on the annual financial statements (and the consolidated financial statements where applicable) and the agreements with the auditor (in particular, the granting of the audit mandate to the auditor, the determination of the key areas of the audit and the fee agreement). The Audit Committee takes appropriate measures to determine and monitor the independence of the auditor. Thus, the Audit Committee released a white list of a limited number of non-audit services that can be provided by the auditor. If the auditor is commissioned to perform further tasks, the Audit Committee's approval will be required. In addition, on the Audit Committee's behalf, the company has established a process to ensure that no prohibited non-audit services are contracted to the current auditor or potential future auditors. The work of the Audit Committee is based on particular Rules of Procedure that were most recently amended on 17 June 2016.

The members of the Audit Committee are Mr Stefan Jütte (Chairman), Dr Jochen Scharpe (Deputy Chairman), Ms Natalie C. Hayday. The Chairman of the Audit Committee is independent and has special expertise and experience in the application of accounting policies and internal control procedures.

Detailed information on the work of the Supervisory Board and the composition of the committees of the Supervisory Board in the 2018 financial year can be found in the > **Report of the Supervisory Board.**

Targets for the Participation of Women

In accordance with section 76(4) and section 111(5) of the German Stock Corporation Act, the Supervisory Board and the Management Board are required to set targets for the participation of women in (i) the Supervisory Board, (ii) the Management Board and (iii) the two management levels below the Management Board, to stipulate a timeframe for when this goal must be achieved, to report on the achievement of this goal, or give reasons in the event of non-achievement of this goal.

Supervisory Board

At its meeting on 8 March 2017 the Supervisory Board, based on the six-person Supervisory Board of LEG Immobilien AG and given the current composition of the Supervisory Board, resolved a ratio of 16.6 % (corresponds to one woman on the six-person Supervisory Board). The deadline for achieving this goal was set as 31 December 2021.

Management Board

Also at its meeting on 8 March 2017, the Supervisory Board set a goal for the share of women on the Management Board of 0.0 %, in particular on account of the extension of Management Board appointments in March 2015. The goal was therefore for the current status. The deadline for achieving this goal was set as 31 December 2021.

Management levels below Management Board

LEG Immobilien AG itself has no employees. Hence it is not possible to set goals for employees that it does not have. However, at the Management Board meeting of 6 March 2017 the Management Board of LEG Immobilien AG voluntarily set Group-wide targets for the appointment of women to management positions. The Management Board is standing by its goal of a share of women of 30 % in the first and second management levels below the Management Board, and is aiming to achieve this by 31 December 2021.

Diversity concept of the Supervisory Board

For its composition the Supervisory Board has stated the following targets which include various diversity requirements:

- With the overall composition of the Supervisory Board, the competence profile set should be met. On the basis of their knowledge, skills and professional experience, the members of the Supervisory Board should be able to perform the duties of a Supervisory Board member of a listed property company with a focus on residential properties. The Supervisory Board has stated that Group management, the housing industry, property transactions, bank and capital market financing, finances and management and regulation are special areas of competence which should be met by the Supervisory Board as a whole.
- The members of the Supervisory Board should satisfy the requirements of the German Corporate Governance Code.
- At least five members of the Supervisory Board must be independent as defined by item 5.4.2 sentence 2 of the GCGC.
- In the interests of complementary cooperation, the members of the Supervisory Board should have sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience when selecting candidates.
- There should be at least one woman on the Supervisory Board.
- Only candidates younger than 75 at the time of the election should be proposed for the Supervisory Board.
- The period of office of a member of the Supervisory Board should not generally be longer than fifteen years.

In its decision on candidates, the Supervisory Board takes into account not only the statutory requirements and the provisions of the Articles of Association, but in particular the above targets and the competence profile. The same applies to the Nomination Committee, which supports the Supervisory Board by providing assistance in its search for suitable candidates. With the current composition of the Supervisory Board all goals have been achieved and the current composition of the Supervisory Board is balanced.

Diversity concept of the Management Board

There are the following targets for the composition of the Management Board:

- Each member of the Management Board must have not only his own qualification, but also must be suitable for the company in its concrete situation and in view of future tasks.
- The Rules of Procedure for the Management Board specify that members of the Management Board should generally be not older than 65.
- The members of the Management Board should supplement each other in respect to competence and knowledge. Here the Management Board should be composed in a way that the Board as a whole not only has entrepreneurial and managerial competence but also knowledge of property management and extensive expertise concerning regional housing markets.
- Moreover, the composition of the Management Board should allow it to have financial markets expertise as well as social competence, e. g. in the area of social and neighbourhood management.
- At its meeting on 8 March 2017, the Supervisory Board set a goal for the share of women on the Management Board of 0.0 %

The Supervisory Board and its Executive Committee ensure that the composition of the Management Board takes place taking due account of the targets set. In addition, account is taken of the relevant legislation and the recommendations of the German Corporate Governance Code. With the current composition of the Management Board, all goals have been achieved.

The corporate governance declaration in accordance with sections 289f HGB and 315d HGB, including the above declaration in accordance with section 161 AktG and the other disclosures on corporate governance can also be found on the homepage of LEG Immobilien AG at **www.leg.ag.**

Non-financial Declaration in Accordance with Section 315b HGB in Conjunction with Section 289b HGB

In place of a non-financial declaration in accordance with section 315b HGB in conjunction with section 289b HGB, LEG Immobilien AG prepares a separate non-financial Group report that satisfies the content requirements of section 315c HGB in conjunction with section 289c HGB and, no later than four months after the end of the reporting period, is published on the company's website at **www.leg.ag.** where it will be accessible for at least ten years.

Takeover Disclosures in Accordance with Section 315 a HGB

Composition of issued capital
There are 63,188,185 no-par-value ordinary shares admitted to trading on the Frankfurt Stock Exchange. The shares are registered shares and do not differ in terms of the securitised rights and obligations.

The Authorized Capital amounts to EUR 31,594,092.00. The Contingent Capital amounts to EUR 31,594,092.00.

Restrictions relating to voting rights and transfers of shares
There are no further restrictions on voting rights, the exercise of voting rights or the transfer of shares beyond the statutory provisions.

Interests in capital with shares of voting rights exceeding 10 %
As at 31 December 2018 there were neither direct nor indirect interests in capital exceeding 10 % of the voting rights.

Bearers of shares with special rights granting powers of control
The shares issued by LEG do not have special rights granting powers of control.

Rules for the appointment and dismissal of members of the Management Board and amendments to the Articles of Association
Members of the Management Board are appointed and dismissed in accordance with the provisions of section 84 of the German Stock Corporation Act (AktG). There are no material supplementary or divergent provisions in the Articles of Association or Rules of Procedure.

Amendments to the Articles of Association are effected in accordance with the provisions of the AktG. There are no material supplementary or divergent provisions in the Articles of Association or Rules of Procedure.

Authority of the Management Board to issue shares
The Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company by up to a total of EUR 31,594,092.00 by issuing up to 31,594,092 new shares until 16 May 2022 (Authorized Capital 2017).

The share capital is contingently increased by up to EUR 31,594,092.00 through the issue of up to 31,594,092 new shares (Contingent Capital 2013/2017/2018). The contingent capital increase is subject to the proviso that the conditions for the conversion rights issued in 2014 or 2017 or in future are exercised and serviced by way of the corresponding utilisation of contingent capital.

Authorisation on the acquisition and utilisation of treasury shares
On 17 Mai 2017, the Annual General Meeting of LEG Immobilien AG authorised the Management Board in accordance with section 71(1) no. 8 AktG to acquire treasury shares up to a total of 10 % of the share capital in place as at the time of the authorisation. The shares acquired on the basis of this authorisation, together with other shares of the company that the company has already acquired and still holds or that are attributable to it, cannot account for more than 10 % of the share capital at any time. The authorisation applies until 16 May 2022 and can be exercised in full or in part on one or more occasions. At the discretion of the Management Board, the shares must be acquired in accordance with the principle of equal treatment (section 53a AktG) on the stock exchange or by means of a public invitation to all shareholders to submit offers to sell, in which case the principle of equal treatment of shareholders must also be upheld, unless the disapplication of the right to tender is permitted, (section 52a AktG), or by granting tender rights.

If the shares are acquired on the stock market, the acquisition price (not including incidental costs of acquisition) must not be 10 % higher or 20 % less than the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last three trading days before the acquisition or the assumption of an acquisition obligation.

If acquired by way of a public purchase offer made to all shareholders or a public invitation to all shareholders of the company to submit offers for sale, the acquisition price (not including incidental costs of acquisition) paid to shareholders must not be 10 % more or 20 % less than the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last three trading days before the publication of the offer or, if acquired otherwise, before the acquisition.

If the shares are acquired by granting tender rights, the consideration paid per share by the company (not including incidental costs of acquisition) must not be 10 % higher or 20% less than the average share price on the stock exchange in Frankfurt/Main on the last three stock exchange trading days before the date offers of sale are accepted or the date that tender rights are granted.

The authorisation can be exercised for any purpose allowed by law. The Management Board was also authorised to use the shares acquired on the basis of the acquisition authorisation – subject to other requirement – as follows, in particular: (i) to withdraw shares, (ii) for resale on the stock exchange, (iii) to offer for subscription to shareholders, (iv) for disposal in a manner other than on the stock exchange or by way of offer to all shareholders if the acquired shares are sold against cash payment at a price not significantly less than the stock market price within the meaning of section 186(3) sentence 4 AktG, whereby this authorisation is limited to a pro rata amount of share capital totalling not more than 10 % of the share capital as of the time of the resolution by the Annual General Meeting or – if lower – 10 % of the share capital as of the time of the disposal of the shares, (v) as part of a merger or for the acquisition of companies, parts of companies or equity investments in companies, including increases of existing holdings, or of other eligible assets such as properties, property portfolios and receivables from the company, and (vi) to fulfil option or conversion rights/obligations, whereby this authorisation is limited to a pro rata amount of the share capital of not more than 10 % of the share capital of LEG Immobilien AG at the time of the resolution of the Annual General Meeting regarding this authorisation or – if this value is lower – 10 % of the share capital at the time of the disposal of the shares. Shareholders' pre-emption rights can be disapplied in certain cases, including for fractional amounts.

The statutory provisions also apply.

Material agreements of the company for the event of a change of control following a takeover bid

In April 2014 and in August 2017, LEG Immobilien AG issued convertible bonds with a volume of EUR 300 million or EUR 400 million respectively. In the event of a change of control, the terms and conditions of the convertible bonds state that the bondholders shall be entitled to receive an increased number of shares at a correspondingly adjusted conversion price if the conversion is exercised within a defined period following the change of control. Prior to a change of control taking place, bondholders may submit their convertible bonds for conversion when a corresponding takeover bid is published subject to the condition precedent of the change of control taking place. The extent of the adjustment to the conversion price shall fall during the term of the convertible bond; this is defined in greater detail in the terms and conditions of the convertible bonds. A change of control in accordance with these conditions is considered to have taken place if a person or persons acting in concert hold 30 % or more of the shares in LEG Immobilien AG or are otherwise able to exercise control over the company.

In addition, there are some financing agreements in place that contain a termination clause for the benefit of the financing banks, following such a change of control.

Compensation agreements concluded by the company with employees or members of the Management Board in the event of a takeover bid

The contracts of employment of the Management Board members contain provisions with respect to the event of a change of control. In case of an early contract termination in the event of a change of control, members of the Management Board may receive compensation under certain circumstances. This agreement complies with the provisions of section 4.2.3 of the German Corporate Governance Code by limiting the compensation in accordance with the suggested compensation cap.

Dusseldorf, 6 March 2019

LEG Immobilien AG, Dusseldorf
The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
LARS VON LACKUM

CONSOLIDATED FINANCIAL STATEMENTS

4

Consolidated statement of financial position

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Assets

€ million	Notes	31.12.2018	31.12.2017
Non-current assets		**10,884.9**	**9,633.0**
Investment properties	E.1	10,709.0	9,460.7
Property, plant and equipment	E.2	62.5	63.4
Intangible assets	E.3	85.3	85.4
Investments in associates		9.7	9.5
Other financial assets	E.4	10.8	3.0
Receivables and other assets	E.5	0.2	2.3
Deferred tax assets	E.13	7.4	8.7
Current assets		**289.0**	**349.1**
Real estate inventory and other inventory		6.1	5.3
Receivables and other assets	E.5	47.5	56.4
Income tax receivables		1.8	2.0
Cash and cash equivalents	E.6	233.6	285.4
Assets held for sale	E.7	**20.3**	**30.9**
Total assets		**11,194.2**	**10,013.0**

Equity and liabilities

€ million	Notes	31.12.2018	31.12.2017
Equity	E.8	**4,783.9**	**4,112.4**
Share capital		63.2	63.2
Capital reserves		611.2	611.2
Cumulative other reserves		4,083.2	3,413.0
Equity attributable to shareholders of the parent company		4,757.6	4,087.4
Non-controlling interests		26.3	25.0
Non-current liabilities		**5,495.6**	**4,980.2**
Pension provisions	E.9	142.4	148.6
Other provisions	E.10	4.5	9.4
Financing liabilities	E.11	4,113.3	3,821.4
Other liabilities	E.12	134.8	145.6
Deferred tax liabilities	E.13	1,100.6	855.2
Current liabilities		**914.7**	**920.4**
Pension provisions	E.9	6.9	7.0
Other provisions	E.10	17.8	12.9
Provisions for taxes		0.2	0.2
Financing liabilities	E.11	484.8	478.2
Other liabilities	E.12	396.0	413.6
Tax liabilities		9.0	8.5
Total Equity and liabilities		**11,194.2**	**10,013.0**

Consolidated statement of comprehensive income

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€ million	Notes	01.01.–31.12.2018	01.01.–31.12.2017
Net rental and lease income	F.2	**418.6**	**399.4**
Rental and lease income		766.9	795.8
Cost of sales in connection with rental lease income		–348.3	–396.4
Net income from the disposal of investment properties	F.3	**–0.9**	**–1.4**
Income from the disposal of investment properties		29.5	66.5
Carrying amount of the disposal of investment properties		–29.5	–67.4
Cost of sales in connection with disposed investment properties		–0.9	–0.5
Net income from the remeasurement of investment properties	F.4	**800.9**	**1,036.8**
Net income from the disposal of real estate inventory		**–1.6**	**–2.3**
Income from the real estate inventory disposed of		1.6	0.2
Carrying amount of the real estate inventory disposed of		–0.8	–0.2
Costs of sales of the real estate inventory disposed of		–2.4	–2.3
Income from other services	F.5	**5.3**	**6.3**
Income from other services		11.7	12.2
Expenses in connection with other services		–6.4	–5.9
Administrative and other expenses	F.6	**–44.8**	**–41.3**
Other income		**0.8**	**1.4**
Operating earnings		**1,178.3**	**1,398.9**
Interest income		0.8	7.4
Interest expenses	F.7	–109.3	–152.3
Net income from investment securities and other equity investments		1.0	4.1
Net income from associates		0.2	0.4
Net income from the fair value measurement of derivatives	F.8	25.4	–138.2
Earnings before income taxes		**1,096.4**	**1,120.3**
Income taxes	F.9	–249.3	–275.5
Net profit or loss for the period		**847.1**	**844.8**

€ million	Notes	01.01.–31.12.2018	01.01.–31.12.2017
Change in amounts recognised directly in equity		**11.2**	**19.4**
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		**8.6**	**17.1**
Change in unrealised gains/(losses)		11.3	23.2
Income taxes on amounts recognised directly in equity		–2.7	–6.1
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		**2.6**	**2.3**
Change in unrealised gains/losses		3.6	3.6
Income taxes on amounts recognised directly in equity		–1.0	–1.3
Total comprehensive income		**858.3**	**864.2**
Net profit or loss for the period attributable to:			
Non-controlling interests		4.1	3.5
Parent shareholders		843.0	841.3
Total comprehensive income attributable to:			
Non-controlling interests		4.1	3.5
Parent shareholders		854.1	860.7
Earnings per share (basic) in €	F.10	**13.34**	**13.31**
Earnings per share (diluted) in €	F.10	**11.47**	**13.31**

See > section E.8 of the notes.

Statement of changes in consolidated equity

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			Cumulative other reserves					
€ million	Share capital	Capital reserves	Revenue reserves	Actuarial gains and losses from the measurement of pension obligations	Fair value adjustment of interest derivatives in hedges	Equity attributable to shareholders of the Group	Non controlling interests	Consolidated equity
As of 01.01.2017	**63.2**	**611.2**	**2,818.8**	**–39.9**	**–38.8**	**3,414.5**	**22.2**	**3,436.7**
Net profit or loss for the period	–	–	841.3	–	–	841.3	3.5	844.8
Other comprehensive income	–	–	–	2.3	17.1	19.4	0.0	19.4
Total comprehensive income	**–**	**–**	**841.3**	**2.3**	**17.1**	**860.7**	**3.5**	**864.2**
Change in consolidated companies	–	–	–	–	–	–	1.2	1.2
Other	–	–	1.0	–	–	1.0	1.0	2.0
Withdrawals from reserves	–	–	–14.4	–	–	–14.4	–2.9	–17.3
Change in put options	–	–	–	–	–	–	–	–
Distributions	–	–	–174.4	–	–	–174.4	–	–174.4
As of 31.12.2017	**63.2**	**611.2**	**3,472.3**	**–37.6**	**–21.7**	**4,087.4**	**25.0**	**4,112.4**
As of 01.01.2018	**63.2**	**611.2**	**3,472.3**	**–37.6**	**–21.7**	**4,087.4**	**25.0**	**4,112.4**
Net profit or loss for the period	–	–	843.0	–	–	843.0	4.1	847.1
Other comprehensive income	–	–	–	2.5	8.6	11.1	0.0	11.1
Total comprehensive income	**–**	**–**	**843.0**	**2.5**	**8.6**	**854.1**	**4.1**	**858.2**
First-time adoption IFRS 9	–	–	7.8	–	–	7.8	–	7.8
Change in consolidated companies	–	–	–	–	–	–	1.0	1.0
Other	–	–	1.8	–	–	1.8	0.7	2.5
Withdrawals from reserves	–	–	–	–	–	–	–3.5	–3.5
Change in put options	–	–	–1.4	–	–	–1.4	–	–1.4
Distributions	–	–	–192.1	–	–	–192.1	–1.0	–193.1
As of 31.12.2018	**63.2**	**611.2**	**4,131.4**	**–35.1**	**–13.1**	**4,757.6**	**26.3**	**4,783.9**

See > **section E.8** of the notes

Consolidated statement of cash flows

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€ million	01.01. – 31.12.2018	01.01. – 31.12.2017
Operating earnings	**1,178.3**	**1,398.9**
Depreciation on property, plant and equipment and amortisation on intangible assets	9.8	9.2
(Gains)/Losses from the remeasurement of investment properties	– 800.9	– 1,036.8
(Gains)/Losses from the disposal of assets held for sale and investment properties	0.1	0.9
(Gains)/losses from the disposal of intangible assets and property, plant and equipment	0.0	0.0
(Decrease)/Increase in pension provisions and other non-current provisions	– 7.6	– 5.2
Other non-cash income and expenses	8.0	6.8
(Decrease)/Increase in receivables, inventories and other assets	– 4.6	– 15.1
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions	– 14.2	3.8
Interest paid	– 77.7	– 81.3
Interest received	0.5	0.4
Received income from investments	2.6	2.7
Income taxes received	2.0	0.6
Income taxes paid	– 7.7	– 15.3
Net cash from / (used in) operating activities	**288.6**	**269.6**
Cash flow from investing activities		
Investments in investment properties	– 451.8	– 467.8
Proceeds from disposals of non-current assets held for sale and investment properties	26.9	22.0
Investments in intangible assets and property, plant and equipment	– 7.0	– 5.7
Acquisition of shares in consolidated companies	–	0.2
Net cash from / (used in) investing activities	**– 431.9**	**– 451.3**

€ million	01.01. – 31.12.2018	01.01. – 31.12.2017
Cash flow from financing activities		
Borrowing of bank loans	752.7	339.8
Repayment of bank loans	– 592.4	– 752.5
Repayment of lease liabilities	– 4.6	– 4.4
Issue of registered bonds	130.0	–
Issue of convertible/corporate bonds	–	891.2
Distribution to minorities	– 2.8	–
Distribution to shareholders	– 192.1	– 174.4
Other proceeds	0.7	0.7
Net cash from / (used in) financing activities	**91.5**	**300.4**
Change in cash and cash equivalents	**– 51.8**	**118.7**
Cash and cash equivalents at beginning of period	285.4	166.7
Cash and cash equivalents at end of period	**233.6**	**285.4**
Composition of cash and cash equivalents		
Cash in hand, bank balances	233.6	285.4
Cash and cash equivalents at end of period	**233.6**	**285.4**

See > section G of the notes.

Notes

A. General Information on the consolidated financial Statements of LEG Immobilien AG

1 | Basic information on the Group

LEG Immobilien AG, Dusseldorf (hereinafter: “LEG Immo”), its subsidiary LEG NRW GmbH, Dusseldorf (hereinafter: “LEG”) and the subsidiaries of the latter company (hereinafter referred to collectively as the “LEG Group”) are among the largest residential companies in Germany. The LEG Group held a portfolio of 135,236 units (residential and commercial) on 31 December 2018.

LEG Immo and its subsidiaries engage in two core activities as an integrated property company: the value-adding long-term management of its residential property portfolio in connection with the strategic acquisition of residential portfolios in order to generate economies of scale for its management platform and the expansion of tenant-oriented services.

These consolidated financial statements were approved for publication by LEG Immo’s Management Board on 11 March 2019.

2 | Consolidated financial statements

The consolidated financial statements of the LEG Group as at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as applicable in the European Union. The consolidated financial statements have been prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, concerning the application of international accounting standards in conjunction with section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the additional provisions of commercial law.

Individual items of the statement of comprehensive income and the statement of financial position have been aggregated to improve the clarity of presentation. These items are discussed in the notes to the consolidated financial statements. The statement of comprehensive income has been prepared using the cost of sales method.

The consolidated financial statements have been prepared in euro. Unless stated otherwise, all figures have been rounded to millions of euro (EUR million). For technical reasons, tables and references can include rounded figures that differ from the exact mathematical values.

The consolidated financial statements are prepared on the basis of accounting for assets and liabilities at amortised cost. Exceptions to this are investment property, securities held for sale and derivative financial instruments, which are carried at their fair value as at the end of the reporting period.

The consolidated financial statements and the Group management report are published in the Bundesanzeiger (Federal Gazette).

The preparation of consolidated financial statements in accordance with IFRS requires estimates and judgements on the part of management. Areas with greater scope for judgement or areas in which assumptions and estimates are of material importance to the consolidated financial statements are listed in D. 22 and D. 23.

The consolidated financial statements of LEG Immo constitute exempting consolidated financial statements within the meaning of section 291 HGB for LEG Holding GmbH and LEG NRW GmbH, Ruhr-Lippe Wohnungsgesellschaft mbH and Wohnungsgesellschaft Münsterland mbH. These companies are not required to prepare subgroup financial statements as they are included in the consolidated financial statements of LEG Immo, no non-controlling interests have applied for the preparation of consolidated financial statements and a Group management report in accordance with section 291(3) sentence 1 no. 2 HGB, and the other conditions of section 291(2) no. 2 and no. 3 HGB have been met.

The exemption provisions set out in section 264(3) HGB were exercised by Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH, LEG Wohnungsbau Rheinland GmbH, LEG Rheinland Köln GmbH, Wohnungsgesellschaft Münsterland GmbH, Ruhr-Lippe Wohnungsgesellschaft mbH, Ravensberger Heimstättengesellschaft mbH, LEG Management GmbH, LEG Wohnen NRW GmbH and WohnService-Plus GmbH, TSP-TechnikServicePlus GmbH and LEG Siebte Grundstücksverwaltung GmbH.

B. New accounting standards

1 | International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) that have been published but that are not yet effective

The IASB has published the following IFRS and IFRIC that are not yet effective and that will be relevant to the LEG Group:

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Published IFRS and IFRIC that are not yet effective

	Content	Effective for reporting periods beginning on
New standards		
IFRS 16	"Leases"	01.01.2019
IFRIC 23	"Uncertainty over income tax treatments"	01.01.2019
Amendments to standards		
IFRS 9	"Prepayment features with negative compensation"	01.01.2019
IAS 28	"Long-term interests in associates and Joint Ventures"	01.01.2019[1]
Various standards	"Improvements and amendments of selected IFRS Standards 2015–2017"	01.01.2019[1]
IAS 19	"Plan Amendment, Curtailment or Settlement"	01.01.2019[1]
Various standards	"Amendments to References to the Conceptual Framework in IFRS Standards"	01.01.2020[1]
IFRS 3	"Amendments to business combinations"	01.01.2020[1]
IAS 1/IAS 8	"Amendments regarding the definition of material"	01.01.2020[1]

[1] (not yet endorsed)

LEG Immo does not adopt new standards early.

IFRS 16

The IASB completed its project to replace IAS 17, Leases, in January 2016 with the publication of the final version of IFRS 16, Leases. IFRS 16 establishes a new accounting model based on the right to use an asset for leases in the lessee's financial statements. The current classification system that distinguishes between operating and finance leases will be replaced for lessees in future ("one-model approach"). For lessees, all leases will be shown "on-balance". Thus, lessees will recognise a "right of use" asset and a lease liability for all leases. The standard is effective for reporting periods beginning on or after 1 January 2019.

When the annual financial statements were being prepared, the project started in the 2017 financial year to check the impact and implementation of the new standard was in its final phase.

The recognition of previous operating leases "on-balance" (primarily leaseholds) will lead to a minor improvement in FFO and a minor to medium increase in the LTV (due to the recognition of additional non-current liabilities). It is probable that there will also be changes in the property valuation in accordance with IAS 40. At the time the financial statements were completed, the precise amounts were not yet determined, although it is anticipated that the impact will be to the order of an eight-figure amount. Other asset classes impacted by the new regulation are rented land and buildings (company headquarters in Dusseldorf as well as individual branch offices) and vehicle leases (company cars for managers and the TSP-TechnikServicePlus GmbH car fleet) as well as peripheral devices (printers, photocopiers, multi-functional devices and other IT equipment).

The modified retrospective approach has been selected as the transitional method. Thus the comparative prior period figures will not be adjusted.

Particularly for the measurement and reporting technology asset class, LEG will not use the practical expedient for low-value assets. On the other hand, the practical expedient for short-term lease agreements (less than one year) will be used for almost all asset classes which are impacted. In accounting for vehicle leasing, it is elected to combine maintenance services with the lease.

For the contracts relating to measurement and reporting technology previously recognised as finance leases, due to the high number and variety of the individual contracts, in the course of the IFRS 16 transition, recognition is to be based on clusters (property level) and thus the use of weighted durations and other weighted financial data.

In the context of the initial recognition of IFRS 16, in the statement of cash flows there will be an improvement in cash flow from operating activities and a decrease in the cash flow from financing activities.

Overall, it is assumed that IRFS 16 transition will result in increasing lease liabilities by a middle eight-figure amount (c.EUR 40.0-55.0 million). The effects on the results of operations are still considered low (low to medium seven-figure amount per year). For an overview of previous unrecognised operating lease obligations, please refer to > section F. 6 (Rental expenses) and > section I. 9 (Other financial commitments).

2 | International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) effective for the first time

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International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) effective for the first time

	Content	Effective for reporting periods beginning on
New standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	01.01.2018
IFRS 15	"Revenue from Contracts with Customers"	01.01.2018
Amendments to standards		
IFRS 15	"Clarifications to IFRS 15 Revenue from Contracts with Customers"	01.01.2018
IFRS 2	"Classification and Measurement of Share-based Payment Transactions"	01.01.2018
Various standards	"Improvements and amendments of selected IFRS Standards 2014-2016" - IAS 28 and IFRS 1	01.01.2018
IAS 40	"Transfers of Investmenty Property"	01.01.2018

IFRS 9

The IASB completed its project to replace IAS 39, Financial Instruments: Recognition and Measurement, in July 2014 with the publication of the final version of IFRS 9, Financial Instruments. The standard therefore replaces all earlier versions of IFRS 9 and is effective for the first time for reporting periods beginning on or after 1 January 2018. LEG Immo AG applies IFRS 9 from 1 January 2018, the effective date of the new standard. There will be no restatement of the comparative periods. Differences between the old and new carrying amounts are recognised in retained earnings.

IFRS 9 combines the three project phases of accounting for financial instruments "Classification and measurement", "Impairment" and "Hedge accounting". A qualitative and quantitative assessment of its effects led to the following results:

Classification and Measurement

The amended provisions on classification and measurement relate to equity investments in corporations and partnerships without control or significant influence over the investment property. These financial assets were previously carried at cost. Under IFRS 9, these instruments are measured at fair value.

In the consolidated financial statements, shares in partnerships constitute debt instruments, changes in the fair value of which will be recognised in profit or loss from 1 January 2018. Shares in corporations constitute equity instruments. LEG Immo does not exercise the OCI option in these cases, i.e. changes in the fair value of these equity instruments are recognised in profit or loss from 1 January 2018. Fair value adjustments from the realisation of hidden reserves for the equity investments in question of EUR 9.7 million were recognised on first-time application of IFRS 9 and reported directly in equity (revenue reserves).

Impairment

The amended provisions on loss allowances for financial assets essentially relate to rent receivables and receivables from operating and heating costs not yet invoiced in the LEG Group.

The financial assets of LEG Group measured at amortised cost are subject to the new impairment requirements of IFRS 9 – the expected credit loss (ECO) model, which is replacing the incurred loss model of IAS 39. Further information is shown in > sections D.8. and > I.3.

Hedge accounting

There were no significant effects on hedge accounting. The more extensive disclosures in the notes are shown in > sections D.14. and > I.3.

IFRS 15

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the previous IFRS provisions on revenue recognition: IAS 18 and IAS 11. The goal of the new standard on revenue recognition is to compile the many regulations already contained in various standards and interpretations into a uniform model of revenue recognition. The standard establishes a five-step model to help determine the amount and timing of revenue recognition. Other changes can arise on account of the new regulations for revenue recognition on transfer of control, multi-component transactions with revenue recognised over the period of performance and extended disclosures in the notes. The standard is effective for reporting periods beginning on or after 1 January 2018. IFRS 15 was applied using the modified retrospective approach. This had no effect on the recognition of rental income as this is covered by IAS 17 or IFRS 16 (in future financial years) rather than IFRS 15. Individual allocable operating cost types do not satisfy the requirements for a contract with a customer in accordance with IFRS 15, and were reported under rental income as part of the consideration for the lease component. Furthermore, regarding allocable operating costs, isolated items were identified in which the LEG Group qualifies as an agent under IFRS 15, unlike under IAS 18. Please see > section F.1. There are changes in the reporting of individual allocable operating costs which lead to a reduction of EUR 66.6 million in the revenue reported and at the same time to a reduction of the corresponding cost of sales at the same level, so that there is no change in net rental and lease income. Therefore, there are no material effects on the results of operations.

Only the IFRS and interpretations that affect the LEG Immo consolidated financial statements are explained in more detail below.

C. Basis of consolidation and consolidation methods

1 | Consolidation methods

a) Subsidiaries

The consolidated financial statements of LEG Immo contain all the material subsidiaries LEG Immo controls within the meaning of IFRS 10.

Subsidiaries are consolidated from the date at which LEG Immo first obtains control. Subsidiaries are deconsolidated as soon as LEG Immo no longer controls them.

The financial statements of subsidiaries are prepared using uniform accounting policies and as at the end of the same reporting period as LEG Immo's financial statements.

Capital is consolidated in accordance with the acquisition method, whereby the cost at the time of acquisition is offset against the pro rata share of net assets. Non-controlling interests represent the share of profit and net assets not attributable to the shareholders of LEG Immo. Non-controlling interests are reported separately in the consolidated statement of comprehensive income and the consolidated statement of financial position. They are reported in the consolidated statement of financial position under equity but separately from the equity attributable to the shareholders of the parent company.

All intragroup receivables and liabilities, income and expenses and gains and losses from intragroup transactions are eliminated.

a) Associates

Associates are equity interests whose financial and operating policies can be significantly influenced by LEG Immo. Associates are accounted for using the equity method. Owing to their immateriality for the net assets, financial position and results of operations of the Group, certain individual associates are measured at fair value or, if the fair value cannot be reliably determined for unlisted equity instruments, at cost and reported in other non-current financial assets.

A list of LEG Immo's shareholdings can be found in > section J.

2 | Changes in the Group

a) Subsidiaries

Changes in the companies included in the consolidated financial statements of LEG Immo were as follows:

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Number of consolidated subsidiaries

	2018	2017
As of 01.01.	**66**	**61**
Additions	2	5
Disposals	– 1	0
As of 31.12.	**67**	**66**

German Property Dusseldorf GmbH was acquired and included in consolidation for the first time as at 1 January 2018.

VitalServicePlus GmbH was founded and consolidated for the first time as at 1 January 2018.

LEG Grundstücksentwicklungsgesellschaft Münsterland mbH was retroactively merged with LEG Solution GmbH as of 1 January 2018 in accordance with the merger agreement dated 3 August 2018.

b) Associates
The following table shows the development of associates accounted for using the equity method:

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Number of associates accounted for using the equity method

	2018	2017
As of 01.01.	**2**	**2**
Additions/Disposals	0	0
As of 31.12.	**2**	**2**

3 | IFRS 12 disclosures

a) Disclosures on subsidiaries included in consolidation
An overview of the subsidiaries in which LEG Immo holds investments as at 31 December 2018 (IFRS 12.10 et seq.) can be found in > section J.

The direct and indirect shares of capital held by LEG Immo in the subsidiaries are also equal to its shares of the voting rights. The companies not included in consolidation are not considered material in terms of the key performance indicators net profit for the year, total assets and revenue, and are therefore not included in the consolidated group.

b) Disclosures on subsidiaries with significant non-controlling interests
The financial information on significant, non-controlling interests in subsidiaries is summarised below (IFRS 12.B10). Intragroup transactions were not eliminated in the amounts disclosed.

EnergieServicePlus GmbH and TSP-TechnikServicePlus GmbH are the only subsidiaries with significant non-controlling interests as at 31 December 2018.

EUR 1.3 million of consolidated net profit relates to the significant non-controlling interests of EnergieServicePlus GmbH and EUR 1.8 million to the significant non-controlling interests of TSP-TechnikServicePlus GmbH in 2018. The carrying amount in the Group recognised for the non-controlling interests in EnergieServicePlus GmbH as at 31 December 2018 was EUR 4.7 million. The carrying amount in the Group recognised for the non-controlling interests in TSP-TechnikServicePlus GmbH as at 31 December 2018 was EUR 0.0 million on account of the obligation to pay a guaranteed dividend.

T54

Statement of financial position TSP/ESP

	TSP-TechnikServicePlus GmbH		EnergieServicePlus GmbH	
€ million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Non-current				
Assets	0.4	0.5	8.1	4.9
Liabilities	0.0	0.0	– 2.6	– 3.4
Non-current net assets	0.4	0.5	5.5	1.5
Kurzfristig				
Assets	11.2	7.4	17.2	15.1
Liabilities	– 8.8	– 5.2	– 14.2	– 10.2
Non-current net assets	2.4	2.2	3.0	4.9

T55

Statement of profit or loss TSP/ESP

€ million	TSP-TechnikServicePlus GmbH 2018	TSP-TechnikServicePlus GmbH 2017	EnergieServicePlus GmbH 2018	EnergieServicePlus GmbH 2017
Revenue/other operating income	46.4	39.4	31.3	21.6
Earnings before income taxes	– 0.9	2.8	4.0	2.2
Net profit from continued operations	– 1.3	2.5	2.7	1.5
Net profit	– 1.3	2.5	2.7	1.5
Total comprehensive income	**– 1.3**	**2.5**	**2.7**	**1.5**
Attributable to: interests without significant influence	1.8	1.8	1.3	0.7
Paid dividend to owner without significant interest	1.8	0.0	1.0	0.0

T56

Statement of cash flows TSP/ESP

€ million	TSP-TechnikServicePlus GmbH 2018	TSP-TechnikServicePlus GmbH 2017	EnergieServicePlus GmbH 2018	EnergieServicePlus GmbH 2017
Net cash from / used in				
Operating activities	3.1	0.7	3.5	– 0.2
Investing activities	– 0.1	– 0.4	– 4.1	– 2.0
Financing activities	0.0	0.0	– 0.6	1.2
Change in cash and cash equivalents	**3.0**	**0.3**	**– 1.2**	**– 1.0**

b) Disclosures on associates

1. Disclosures on significant associates

The investments in associates affect the statement of financial position and the statement of comprehensive income of the LEG Group as follows:

T57

Investments in associates

€ million	2018	2017
Recognition	9.7	9.5
Total comprehensive income	0.2	0.4

The disclosures on the equity investments in associates classified as material are listed below.

T58

Material associates

€ million	Share of capital in %	Equity[1]	Result[1]
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	20.9	0.6
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3.6	0.0

[1] For both companies, these figures are the separate HGB equity and results as at 31 December 2017.

The companies listed above perform property management activities.

The relationships with the associates are of an operational nature. All the companies listed above are recognised in the consolidated financial statements using the equity method. There are no quoted market prices.

The compiled financial information for the key associates of the Group is shown below. The financial information shown below is consistent with the amounts in the financial statements of the associates.

T59

Statement of financial position (associates)

	Kommunale Haus und Wohnen GmbH		Beckumer Wohnungs-gesellschaft mbH		Total	
€ million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Non-current assets	43.6	43.6	7.1	7.1	50.7	50.7
Current assets	1.9	1.9	0.6	0.6	2.5	2.5
Cash and cash equivalents	1.7	1.7	1.0	1.0	2.7	2.7
Other assets	–	–	–	–	–	–
Non-current liabilities	20.8	20.8	4.4	4.4	25.2	25.2
Current liabilities	5.5	5.5	0.7	0.7	6.2	6.2
Financing liabilities	–	–	–	–	–	–
Non-financing liabilities	–	–	–	–	–	–
Net assets	**20.9**	**20.9**	**3.6**	**3.6**	**24.5**	**24.5**

T60

Statement of profit or loss (associates)

	Kommunale Haus und Wohnen GmbH		Beckumer Wohnungs-gesellschaft mbH		Total	
€ million	**2018**	2017	**2018**	2017	**2018**	2017
Revenue	6.3	6.3	1.3	1.3	7.6	7.6
Depreciation	1.2	1.2	0.3	0.3	1.5	1.5
Interest income	–	–	–	–	–	–
Interest expense	0.5	0.5	0.1	0.1	0.6	0.6
Income taxes	–	–	–	–	–	–
Net profit from continued operations	0.6	0.6	0.0	0.0	0.6	0.6
Net profit after taxes from discontinued operations	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**0.6**	**0.6**	**0.0**	**0.0**	**0.6**	**0.6**

Statement of reconciliation from compiled financial information to carrying amount of the equity investments:

T61

Reconciliation (associates)

	Kommunale Haus und Wohnen GmbH		Beckumer Wohnungs-gesellschaft mbH		Total	
€ million	**2018**	2017	**2018**	2017	**2018**	2017
Net assets of associates as of 01.01.	20.4	20.4	3.6	3.6	24.0	24.0
Net profit/loss	0.6	0.6	0.0	0.0	0.6	0.6
Addition to reserves	–	–	–	–	–	–
Dividend	– 0.1	– 0.1	–	–	– 0.1	– 0.1
Net assets of associates as of 31.12.	20.9	20.9	3.6	3.6	24.5	24.5
Group share in %	40.62	40.62	33.37	33.37	–	–
Interest in net assets of associates	8.5	8.5	1.2	1.2	9.7	9.7
Carrying amount of the investment	**8.5**	**8.5**	**1.2**	**1.2**	**9.7**	**9.7**

The annual financial statements of both companies as at 31 December 2018 are not yet available and therefore the figures as at 31 December 2017 are indicated for 2018.

D. Accounting policies

1 | Investment properties

Investment property consists of the LEG Group's properties that are held to earn rentals or for capital appreciation or both, rather than for owner occupancy or sale in the ordinary course of business. Investment property includes land with residential and commercial buildings, undeveloped land, land with transferable leasehold land interests, parking spaces and garages.

In accordance with IFRS 5, investment property that is held for sale and that is highly likely to be sold within the next 12 months is recognised as an asset held for sale under current assets. Its measurement is consistent with the measurement of investment property.

Mixed-used properties are separated into the owner-occupied part and the part rented to third parties to the extent that it is legally possible to separate the property in question, and neither the owner-occupied portions nor the portions rented to third parties are immaterial. The portion rented to third parties is allocated to investment property, while the owner-occupied portion is recognised under property, plant and equipment. The ratio of the respective areas is used to allocate the components.

Property is transferred from investment property when there is a change in use evidenced by the commencement of owner-occupancy or the development with a view to sale.

Unless acquired as part of a business combination, investment property is recognised at cost including incidental costs on acquisition. In accordance with the option provided by IAS 40 in conjunction with IFRS 13, investment property is subsequently recognised at fair value. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value assumes the sale of an asset (exit price). It corresponds to the (theoretical) price to be paid to the seller in the event of a (hypothetical) sale of a property at the measurement date, regardless of an entity's specific intention or ability to sell. The concept of highest and best use of the property is assumed in calculating fair value (IFRS 13.27 et seq.). This implies the use or value maximisation of the asset as far as it is physically possible, legally permissible and financially feasible. Further details can be found in > section D.18. Changes in the fair value of property are recognised in profit or loss for the period in which they occur.

Prepayments for property acquisitions are presented as prepayments for investment property. Prepayments for investment property that is acquired as part of a business combination are presented as prepayments for investment property (in case of an asset deal) or as other financial assets (in case of a share deal).

Subsequent costs for extension, partial replacement or maintenance of properties (IAS 40.17) are capitalised if they constitute the replacement of parts of a unit in accordance with the component approach (IAS 40.19) and the costs can be reliably determined. In addition, such costs are capitalised if the activities will result in increased future benefits and the costs can be reliably determined. Capitalised costs are not depreciated, as depreciation is not generally recognised in connection with the fair value option provided by IAS 40.

Individual units are sold to tenants, owner-occupants and private investors as part of portfolio optimisation measures.

Fair values are calculated internally by LEG Immo. In addition to the fair values calculated internally by LEG Immo, the property portfolio was valued by an independent, third-party expert as at 30 June 2018 and 31 December 2018. LEG Immo uses the third-party valuation to check the plausibility of its own calculations and as a general confirmation of the value of the portfolio as a whole through a second opinion.

The properties are reviewed individually by LEG Immo at the level of individual building entrances in terms of their location, condition, fixtures and fittings, current contractual rent and potential for development. The fair values calculated are consistent with the IFRS market values, i.e. the amount for which the respective property could be exchanged between market participants under current market conditions on the measurement date parties in an orderly transaction (IAS 40.5 rev. in conjunction with IFRS 13.15).

The fair values of investment property and properties held for sale are calculated on the basis of the forecast net cash flows from property management using the discounted cash flow (DCF) method. For properties with no positive net cash flow (generally vacant buildings), the fair value is calculated using a liquidation value method. Undeveloped land is usually valued on the basis of an indirect comparison of indicative land values.

A detailed planning period of ten years was applied in DCF measurement. After the end of the tenth year, a sales value is recognised that is calculated by capitalising the forecast annual net profit for the eleventh period, taking the property-specific remaining useful life into account. It is assumed that the minimum and maximum remaining useful lives of the individual properties are 25 years and 80 years respectively. The contractually agreed rental income for the respective property and other property-specific value parameters are applied in the first year of the detailed planning period.

The average monthly in-place rent for the rented apartments in the property portfolio (referring here and hereinafter to both investment property and properties held for sale) used for the measurement in buildings used primarily for residential purposes was EUR 5.65 per square metre as at the end of the reporting period (2017: EUR 5.52 per square metre). These properties can also contain commercial units in some cases. The future development of annual rent was projected on the basis of individual assumptions for the planning period. a distinction was made between rental income from existing tenancies and new lettings due to forecast fluctuation. During the detailed planning period market rent increases annually at an individually determined rate. For new lettings, rent in the amount of the assumed market rent is applied. The market rent growth applied ranges from 0.59 % to 2.00 %, 1.30 % on average (2017: 0.37 % to 1.78 %, on average 1.02 %) depending on the assessment of the respective market and property. Rent from existing tenancies is projected on the basis of the statutory environment and the assessment of the respective market and property, and is assumed to converge with the overall market trend over time. The vacancy rate in terms of rental and usable space used for measurement was 3.98 % as at the measurement date (2017: 3.65 %), adjusting to an assumed stabilised vacancy rate of 2.98 % (2017: 3.03 %) over a period of four years. The assumptions with regard to the future development of the vacancy rate are based on location and individual property characteristics.

Subsidised properties are treated differently depending on the existence and duration of potential rent control. If rent control is set to end within the ten-year detailed planning period, a rent adjustment towards the market rent is assumed for the subsequent year, taking into account the statutory requirements. For the remaining subsidised properties for which rent control will expire by 2100 at the latest, a discount on the capitalisation rate was recognised depending on the remaining duration of rent control.

Average annual maintenance costs of EUR 13.85 per square metre are assumed for reactive and periodical maintenance work depending on the condition and year of construction of the respective properties used predominantly for residential purposes (2017: EUR 13.37 per square metre).

Administrative costs are applied at a flat rate per residential unit of EUR 295.95 p.a. (2017: EUR 290.15 p.a.) and per parking or garage space of EUR 38.60 p.a. (2017: EUR 37.84 p.a.). For residential buildings with a commercial component or other type of use, administrative costs for the non-residential component are calculated at 1 % (2017: 1 %) of gross commercial income.

Management costs are largely based on the cost rates from the Second Rent Computation Ordinance (II BV, 1 January 2017). The II BV management costs have been adjusted in relation to the change in the consumer price index every three years since 2005 (2014: around 5.76 %; 2017 around 1.89 %). For continuity, the measurement model applies a standard increase in management costs in accordance with II BV as an annual increase distributed over three years (for 2017: 2.00 %).

In addition, the development of maintenance and management costs was dynamic in the period under review. The cost increase of 2.00 % per year is derived from the development in the consumer price index expected in the medium term.

Around 1.26 % (2017: 1.30 %) of the units in the portfolio are classified as commercial properties. In some cases, these properties can contain residential units, but they are characterised by their primarily commercial character. Owing to the differing rent terms and market conditions compared to the residential portfolio, these properties are also subject to different assumptions with regard to the key parameters affecting their value.

The average rent of the primarily commercial properties is EUR 7.13 per square metre (2017: EUR 7.08 per square metre), with average maintenance costs of EUR 10.58 per square metre (2017: EUR 10.39 per square metre) in the detailed planning period. The vacancy rate in terms of usable space was 12.99 % as at the measurement date (2017: 12.99 %). Administrative costs are calculated at 1 % (2017: 1 %) of gross commercial income.

Cash flows are discounted using standard market discount rates with matching maturities of 5.20 % on average (weighted average; 2017: 5.33 %) and standard market capitalisation rates for perpetuals of 6.06 % (weighted average; 2017: 6.34 %); this takes into account the property-specific management cost ratio and reflects the individual risk/opportunity profile of the respective property. In addition to location criteria, the determination of an appropriate interest rate takes into account the property type, property condition, age, potential rental growth, the forecast for the location and potential government subsidies in particular.

Owing to the limited availability of market data, i.e. data and measurement parameters not directly observable on the market, the complexity of property valuation and the level of specification of property, the fair value measurement of investment property is assigned to Level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). Further details can be found in **> section D.18.**

In measurement, investment property is broken down into categories defined by type of use:

- Residential assets
- Commercial assets
- Garages, underground garages or parking spaces/other properties,
- Leasehold and undeveloped land.

Commercial property is defined as property upwards of 1,000 square metres of useable space or in which 50 % of the building is used for commercial purposes. Other properties are essentially units with outside advertising media and wireless antennas. Properties are also broken down according to three market clusters using a scoring system: growth markets ("orange"), stable markets ("green") and higher yielding markets ("purple").

The table below shows the measurement method used to determine the fair value of investment property and the material unobservable inputs used:

T62

Information about fair value measurements using significant unobservable inputs (Level 3) 2018

Segment	GAV investment properties	Valuation technique[3]	Discount rate (sqm-weighted)[4]			Capitalisation rate (sqm-weighted)[4]			Sensitivities GAV (variance discount rate)		Sensitivities GAV (variance cap rate)		Estimated rental development Residential (sqm-weighted)			Estimated vacancy development Residential (sqm-weighted)
	€ million		in %			in %			in %		in %		in %			in %
			min.	ø	max.	min.	ø	max.	–25 bps	+25 bps	–25 bps	+25 bps	min.	ø	max.	T_0
Residential assets[1]																
High-growth markets	4,604	DCF	3.9	5.1	6.2	2.5	5.5	11.3	5.1	– 4.7	3.2	– 2.9	1.0	1.7	2.0	2.3
Stable markets	3,298	DCF	3.9	5.1	5.8	2.9	6.1	11.8	4.4	– 4.1	2.6	– 2.4	0.8	1.2	1.8	3.5
Higher-yielding markets	2,215	DCF	4.1	5.3	6.2	3.0	6.6	12.0	4.1	– 3.9	2.1	– 2.0	0.6	1.0	1.5	6.6
Non NRW	165	DCF	3.9	5.0	5.5	3.7	6.0	8.5	4.4	– 4.1	2.5	– 2.3	1.1	1.5	1.7	2.4
Commercial assets[2]	219	DCF	2.5	6.3	9.0	2.8	6.9	10.0	2.6	– 2.5	2.2	– 2.0	0.7	1.5	2.0	13.0
Parking + other assets	185	DCF	4.9	–	6.0	3.4	–	12.6	5.1	– 4.7	1.9	– 1.7	–	–	–	–
Leasehold + land values	37	Earnings/ reference value method														
Total IAS 40/ IFRS 5[5]	**10,724**	**DCF**	**2.5**	**5.2**	**9.0**	**2.5**	**6.1**	**12.6**	**4.6**	**– 4.3**	**2.8**	**– 2.5**	**0.6**	**1.3**	**2.0**	**4.2**

[1] Excluding 372 residential units in commercial buildings; including 462 commercial and other units in mixed residential assets.
[2] Excluding 462 commercial units in mixed residential assets; including 372 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.
[5] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2017:

T63

Information about fair value measurements using significant unobservable inputs (Level 3) 2017

Segment	GAV investment properties	Valuation technique[3]	Discount rate (sqm-weighted)[4]			Capitalisation rate (sqm-weighted)[4]			Sensitivities GAV (variance discount rate)		Sensitivities GAV (variance cap rate)		Estimated rental development Residential (sqm-weighted)			Estimated vacancy development Residential (sqm-weighted)
	€ million		in %			in %			in %		in %		in %			in %
			min.	ø	max.	min.	ø	max.	–25 bps	+25 bps	–25 bps	+25 bps	min.	ø	max.	T_0
Residential assets[1]																
High-growth markets	4,174	DCF	3.9	5.1	6.1	2.6	5.6	11.9	5.0	–4.6	3.1	–2.7	0.7	1.4	1.8	2.0
Stable markets	2,838	DCF	4.0	5.3	6.1	3.2	6.5	12.3	4.0	–4.1	2.2	–2.3	0.5	0.9	1.4	3.2
Higher-yielding markets	1,923	DCF	4.3	5.5	6.5	3.3	6.9	12.7	3.8	–3.8	1.9	–2.0	0.4	0.7	1.2	6.1
Non NRW	146	DCF	4.0	5.2	5.8	3.8	6.4	8.6	4.1	–3.9	2.2	–2.1	0.5	1.1	1.5	1.1
Commercial assets[2]	198	DCF	5.0	6.4	10.0	4.1	7.0	12.5	2.9	–2.1	2.4	–1.6	–	–	–	–
Parking + other assets	167	DCF	4.9	–	6.2	3.6	–	12.8	5.1	–4.5	2.0	–1.6	–	–	–	–
Leasehold + land values	33	Earnings/ reference value method														
Total IAS 40/ IFRS 5[5]	**9,479**	**DCF**	**3.9**	**5.3**	**10.0**	**2.6**	**6.3**	**12.8**	**4.4**	**–4.2**	**2.5**	**–2.4**	**0.4**	**1.0**	**1.8**	**3.9**

[1] Excluding 375 residential units in commercial buildings; including 425 commercial and other units in mixed residential assets.
[2] Excluding 375 commercial units in mixed residential assets; including 425 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.
[5] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

With the acquisition of the shares in LEG from "Beteiligungsverwaltungsgesellschaft des Landes Nordrhein-Westfalen and NRW-Bank, Anstalt des öffentlichen Rechts", effective 29 August 2008, the LEG Group undertook to uphold social conditions including compliance with the usual provisions on tenant protection and safeguarding the property portfolio in question.

These social conditions include the following obligations:

Under the terms of the Social Charter, tenants had a right of first refusal at preferential conditions in certain cases until August 2018. Planned sales of rented buildings or complexes with more than one rented residential unit can only go ahead if certain conditions are met.

In some cases, the operating companies of the LEG Group are subject to restrictions on rent increases with respect to certain tenants with rights of first refusal and in connection with assistance in the form of loans at below-market rates of interest or investment subsidies. Legal requirements with regard to the privatisation of residential properties must also be observed. The company is required to spend a predetermined average amount per square metre on maintenance and value-adding measures. Certain parts of the portfolio are also subject to unconditional restrictions on sale. The agreed social charter with the restrictions described expired on schedule in August 2018 after ten years.

The social charter contained extensive provisions which were partially enforceable by penalty and had to be complied with in full. Throughout the entire period of duration, the LEG Group successfully observed these protection provisions in full and without any objections.

Throughout the duration of the social charter, an audited report was prepared each year on all measures, action taken and action not taken in connection with the protection provisions on the basis of which the Ministry for Transport of the State of North Rhine-Westphalia monitored compliance with the social charter.

For prior periods and from 1 January to 29 August 2018, full compliance was confirmed by the auditing company with an unqualified opinion. To date, no objections have been raised by the then sellers.

2 | Property, plant and equipment

Property, plant and equipment is recognised at cost and depreciated on a straight-line basis over its expected useful life.

Any subsidies received are deducted in calculating cost.

Depreciation is recognised using the following useful lives, which are applied uniformly throughout the Group:

T64

Useful life of property, plant and equipment

in years	**2018**	2017
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/ Other operating and office equipment	3 to 23	5 to 23

Low-value assets with a net value of up to EUR 250 are immediately written off in full in the year of their acquisition. Assets with a net value between EUR 250.01 and EUR 800 are written off in full in the year of their acquisition. Deviations from the economic life of the respective assets are considered immaterial.

3 | Intangible assets and goodwill

Purchased intangible assets are capitalised at cost. Such assets are software licenses with a definite useful life. Software licenses are amortised on a straight-line basis over an expected economic life of between three and five years from the date on which they are provided.

The goodwill resulting from purchase price allocation (PPA) is allocated to the cash-generating units (CGUs) expected to benefit from the business combination. The partial goodwill method is applied in calculating goodwill.

There are therefore four CGUs to which goodwill has been allocated within the LEG Group as at 31 December 2018. In addition to the CGU groups "Vitus" and "Residential like-for-like", the property portfolios "Bismarck"(acquired from Sahle Wohnen GmbH & Co. KG by way of purchase agreement dated 30 November 2015) and "Charlie" (acquired from Vonovia SE by way of purchase agreement dated 22 December 2015) also have goodwill. The portion of goodwill resulting from deferred tax liabilities is allocated to the respective CGU that holds the assets and liabilities. The following goodwill amounts therefore relate to the CGU groups as at 31 December 2018:

- "Vitus": EUR 34.0 million (previous year: EUR 34.0 million)
- "Wohnen like-for-like": EUR 49.7 million (previous year: EUR 49.7 million)
- "Bismarck": EUR 0.2 million (previous year: EUR 0.2 million)
- "Charlie": EUR 0.9 million (previous year: EUR 0.9 million)

The synergies anticipated from the business combinations essentially consist of planned cost savings, additional income potential and tax savings, which are allocated proportionately to the respective CGUs.

In the goodwill impairment test, the recoverable amount is represented by the fair value less costs of disposal (FVLCOD). The FVLCOD is calculated as the present value of the free cash flows before interest and after taxes expected from continuing a CGU or a group of CGUs. A general tax rate of 31.2 % (previous year: 31.2 %) is applied to EBIT here. The cash flow forecast reflects past experience and takes into account management expectations of future market developments. These cash flow forecasts are based on the resolved medium-term planning, which covers a horizon of five years (detailed planning period). Administrative costs are accounted for appropriately.

There is also a cash flow forecast going beyond the five-year planning horizon. This is prepared by deriving a sustainable free cash flow from the detailed planning period and extrapolating this using a growth rate based on the specific market development.

A weighted average cost of capital that reflects the capital market's return requirements for debt and equity to the LEG Group is used to discount the free cash flows. A cost of capital after taxes is also used on the basis of the calculated free cash flows after taxes. Risks of free cash flows are taken into account by a matched risk capitalisation rate.

Key assumption for the impairment tests are net cold rents, sustainable investments per square metre and the sustainable EBITDA margin. These were as follows:

- Vitus" EUR 38.1 million; sustainable investments EUR 24.51 per sqm, sustainable EBITDA margin 72.6 %
- „Wohnen like-for-like" EUR 465.8 million; sustainable investments EUR 23.19 per sqm, sustainable EBITDA margin 77.9 %
- „Bismarck" EUR 15.4 million; sustainable investments EUR 22.77 per sqm, sustainable EBITDA margin 73.4 %
- „Charlie" EUR 42.1 million; sustainable investments EUR 24.34 per sqm, sustainable EBITDA margin 67.1 %

A uniform capitalisation rate of 2.8 % (previous year: 2.8 %) was used for the CGUs analysed in the goodwill impairment test, representing a corresponding pre-tax capitalisation rate of 3.2 % (previous year: 3.1 %), taking into account a typical tax rate on EBIT of 31.2 %.

A sustainable growth rate of 0.75 % p. a. is assumed for all CGUs.

The goodwill impairment tests performed did not give rise to any impairment requirements. Recoverable amounts and headroom were as follows:

- „Vitus" recoverable amount EUR 806.9 million; headroom EUR 180.0 million
- „Wohnen like-for-like" recoverable amount EUR 11,337.2 million; headroom EUR 2,030.2 million
- „Bismarck" recoverable amount EUR 311.1 million; headroom EUR 50.8 million
- „Charlie" recoverable amount EUR 812.1 million; headroom EUR 184.2 million

The key premises and assumptions influencing impairment on a CGU were reviewed in the form of standardised sensitivity analyses.

EBIT Margin
The risk of a 10 % reduction in the EBIT margin was analysed for the reduced earnings scenario analysis. This calculation gave rise to impairment requirements for the "Bismarck" CGU group, resulting in a full write-down of the allocated goodwill.

Weighted costs of capital
The risks from assumptions regarding the capitalisation rate used as standard to calculate the present value of FVLCOD were tested by simulating impairment on each CGU group with a change in the costs of capital of +/– 50 bp. This scenario analysis gave rise to impairment requirements for the "Bismarck" and "Wohnen like-for-like" groups, resulting in a full write-down of the allocated goodwill. An impairment of the CGU group "Wohnen like-for-like" would only occur at an increase of the interest rate by 50 basis points.

4| Impairment of assets

The LEG Group tests intangible assets and property, plant and equipment in accordance with IAS 36 for impairment losses at least once a year. Impairment testing is performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGUs) are formed as groups of assets whose future cash flows are interdependent.

As there were no triggering events for impairment in the "Biomasse" CGU in the financial year and the results of operations of Biomasse Heizkraftwerk GmbH & Co. KG came out only slightly below previous year's level, the "Biomasse" CGU was not tested for impairment.

Investment property is not subject to impairment testing in accordance with IAS 36 as it is recognised at fair value.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised immediately in profit or loss.

5| Other financial assets

The LEG Group recognises financial assets as at the trade date.

LEG Immo holds very small equity investments. In accordance with IFRS 9, these are classified in the fair value through profit and loss category. On acquisition the measurement takes place at fair value. Gains and losses on subsequent measurement at fair value are recognised in profit and loss. For the measurement of the fair value see > **section D.18.**

Subsidiaries which are not consolidated owing to their immateriality for the net assets, financial position and results of operations of the Group are recognised at fair value as at the end of the reporting period or, if this cannot be reliably determined, at cost. Shares in unconsolidated subsidiaries or subsidiaries recognised using the equity method are not quoted. Owing to the considerable volatility and the lack of an active market, the fair value of these instruments cannot be reliably determined. There is currently no intention to sell these shares in the near future.

6| Accounting for leases as the lessee

Leased assets for which beneficial ownership lies with the LEG Group (finance leases in accordance with IAS 17) are recognised as non-current assets at the lower of the present value of minimum lease payments or the fair value of the leased property, and are depreciated on a straight-line basis. Leases for which beneficial ownership does not lie with the LEG Group are classified as operating leases.

7| Accounting for leases as the lessor

Leases for residential properties grant tenants an option to terminate the agreement at short-notice on the basis of the statutory regulations. In accordance with IAS 17, these agreements are classified as operating leases as the significant risks and rewards remain with the LEG Group. The same applies to the current agreements for commercial property.

Income from operating leases is recognised in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective leases.

8| Receivables and other assets

On initial recognition, trade receivables and other financial assets are carried at their fair value plus transaction costs. Subsequent measurement is at amortised cost.

For rent receivables and receivables from uninvoiced operating costs, the LEG Group uses the expected credit loss model. Here the simplified approach in accordance with IFRS 9 is used and lifetime expected credit losses calculated.

9 | Receivables and liabilities from operating costs not yet invoiced

Operating costs that can be passed on but that have not yet been invoiced as at the end of the reporting period are shown under other receivables in the LEG Group and reduced by the amount of tenant advances received for operating costs. Costs that can be capitalised and passed on are reported net of the tenant advances received. A financial liability is reported if liabilities exceed assets.

10 | Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other short-term, highly liquid financial assets with original maturities of three months or less and bank overdrafts. Utilised bank overdrafts are shown in the statement of financial position in current financial liabilities.

11 | Assets held for sale

In accordance with IFRS 5, assets held for sale consist solely of those assets for which a decision on disposal has been made as at the end of the reporting period, the disposal of the property within twelve months of the decision is considered to be highly likely and active marketing activities have been initiated.

In accordance with IFRS 5, assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Items of investment property classified as assets held for sale are measured at fair value in accordance with IAS 40.

12 | Pension provisions

Pension and similar obligations result from commitments to employees. Obligations arising from defined benefit plans are measured in accordance with the projected unit credit method. Using this method, forecast future increases in salaries and benefits are taken into consideration in addition to benefits and entitlements known at the end of the reporting period. The biometric basis is provided by the 2018G Heubeck mortality tables.

The Group has both defined benefit and defined contribution plans. The amount of the pension benefits payable under defined benefit plans is based on the qualifying period of employment and the pensionable income.

In Germany, the regulatory framework is the Betriebsrentengesetz (Company Pension Act), according to which pensions rise in line with the rate of inflation. LEG bears the actuarial risks, such as the longevity risk, the interest rate risk and the inflation risk. There are no additional plan-specific risks at LEG.

Remeasurement components in connection with defined benefit plans, which cover actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. No past service costs were incurred in the year under review or the previous year.

The interest effect included in pension expenses is shown in interest expenses in the consolidated statement of comprehensive income. Past service costs are shown under operating result in the individual functions.

13 | Other provisions

Other provisions are recognised if the LEG Group has a present legal or constructive obligation as a result of past events that is uncertain with regard to settlement and/or amount. They are recognised at the present value of the expected settlement amount.

Non-current provisions are carried at their discounted settlement amount as at the end of the reporting period on the basis of corresponding market interest rates with matching maturities.

14 | Financing liabilities

On initial recognition, financial liabilities are carried at fair value plus transaction costs and adjusted for any premiums or discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk.

Subsequent measurement takes place at amortised cost using the effective interest method. The effective interest rate is determined on initial recognition of the financial liability.

Changes in terms affecting the amount and timing of interest and principal payments result in the remeasurement of the carrying amount of the liability in the amount of the present value on the basis of the effective interest rate originally calculated. Any differences compared to the previous carrying amount are recognised in profit or loss. If changes in terms lead to significant differences in contractual conditions, the original liability is treated as if it had been repaid in full in accordance with IFRS 9. Subsequently a new liability is recognised at fair value.

15 | Interest derivatives

The LEG Group uses derivative financial instruments to hedge interest rate risks incurred in financing its properties.

Derivative financial instruments are measured at fair value. Changes in the fair value of derivatives are recognised through profit or loss if no hedging relationship in accordance with IAS 9 exists. Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities.

At the inception of the hedge and as at the end of the reporting period, the effectiveness of the hedging relationships is determined using prospective assessments. Here a check is made if the contractual conditions of the hedged item match those of the hedging instrument and that an economic relationship exists.

Changes in fair value are divided into an effective and an ineffective portion. Effectiveness is determined using the dollar offset method. The effective portion is the portion of the gain or loss on remeasurement that is recognised as an effective hedge against the cash flow risk. The effective portion, net of deferred taxes, is recognised directly in other comprehensive income (equity). Ineffective hedges can result from embedded floors in loan agreements, which are not matched in the relevant swap and from taking into account the credit risk in the context of derivative measurement.

The ineffective portion of the gain or loss on remeasurement is reported in net finance costs in the consolidated statement of comprehensive income. The amounts recognised directly in equity are transferred to the consolidated statement of comprehensive income if gains or losses in connection with the underlying are recognised in profit or loss. In the event of the early termination of the hedge, the amounts recognised in equity are reclassified to profit or loss if gains or losses in connection with the underlying are recognised in profit or loss. If the underlying is terminated, then the amounts remaining in other comprehensive income are immediately recognised in profit or loss.

16 | Fair values of financial instruments

The fair values of financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other short-term primary financial instruments, the fair value is approximately the same as the carrying amount at the end of the respective reporting period.

For non-current receivables, other assets and liabilities, the fair value is calculated on the basis of the forecast cash flows, applying the reference interest rates as of the end of the reporting period. The fair values of derivative financial instruments are calculated using the reference interest rates as at the end of the reporting period plus own risk or counterparty risk.

For financial instruments at fair value, the discounted cash flow method is used to determine fair value using corresponding quoted market prices, with individual credit ratings and other market conditions being taken into account in the form of standard credit and liquidity spreads when calculating present value. If no quoted market prices are available, the fair value is calculated using standard measurement methods applying instrument-specific market parameters.

When calculating the fair value of derivative financial instruments, the input parameters for the valuation models are the relevant market prices and interest rates observed as of the end of the reporting period, which are obtained from recognised external sources. Accordingly, derivatives are assigned to Level 2 of the fair value hierarchy set out in IFRS 13.72 et seq. (measurement on the basis of observable inputs). Please see **> section 18.**

Both the Group's own risk and the counterparty risk were taken into account in the calculation of the fair value of derivatives in accordance with IFRS 13.

17 | Put options

LEG is the writer of several put options on the basis of which non-controlling shareholders can tender their interests in companies controlled by LEG to LEG Immo.

They are recognised as financial liabilities in the amount of the present value of the claim to payment of the option holder (fair value). The liability is recognised against the equity attributable to the writer (LEG), if material risks and rewards of the interest remain with the non-controlling shareholders. If LEG can avoid repurchase by appointing a third party, at least the corresponding opportunity costs are recognised. There is no additional reporting of the put options as independent derivatives in this case. The financial instruments are subsequently measured at amortised cost using the effective interest method.

18 | Calculation of fair value

Fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). For information on the measurement of investment property, please see the comments in **> section D. 1.** For the measurement of derivative financial instruments, please see **> section D. 16** and **> section I. 3.**

The fair value hierarchy can be summarised as follows:

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Fair value hierarchy

€ million	Level 1	Level 2	Level 3
Purchase price allocation in the context of business combinations			X
Investment properties			X
Financing liabilities		X	
Other liabilities (particularly derivative)		X	
Investments in corporations and partnerships without control or significant influence			X

There were no transfers between the fair value hierarchy.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. Allocation to Level 3 takes place based on valuation models with inputs not observed on a market. This relates primarily to the capitalisation rate of 6.08 %. As of 31 December 2018, the fair value of the very small equity investments was EUR 9.1 million. The stress test of this parameter on the basis of plus 50 bp results in the fair value being EUR 8.5 million lower and at minus 50 bp EUR 9.8 million higher.

19 | Revenue recognition

Income is recognised when it is probable that the economic benefit will flow to the Group and the amount of the income can be measured reliably. The following recognition criteria must also be met in order for income to be recognised:

a) Rental and lease income
The Group generates income from the rental and lease of properties. Rental income is within the scope of IFRS 17 Leases and are not customer contracts in accordance with IFRS 15.

Income from the rental and lease of properties for which the corresponding rental and lease agreements are classified as operating leases is recognised on a straight-line basis over the term of the respective lease agreement. When incentives are provided to tenants, the cost of the incentive is recognised over the lease term, on a straight-line basis, as a reduction of rental and lease income.

Rental and lease income also includes tenant payments for utilities and service charges if the services have been provided. For allocable operating costs, there are isolated items in which the LEG Group qualifies as an agent under IFRS 15. The operating costs of cold water supply, draining and street cleaning, for which the LEG Group operates as agent, are recognised on a net basis. The other operating costs are recognised on a gross basis. Please see > section F.

Revenues from operating costs are calculated on the basis of the costs incurred and correspond to the contractually agreed transaction price. Advance payments for operating costs are due by the third day of the current month. Revenues are recognised related to the time period over the month. In the subsequent year, the advance payments made for operating costs are offset against the actually incurred values. Surpluses from prepayments received are recognised under rental and lease liabilities. If the prepayments received are lower than the actually incurred operating costs, this is recognised under receivables from rental and leasing activities.

The operating costs of property tax and insurance are recognised as an element of rent and lease income from lease agreements in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective agreements.

b) Income from the disposal of property

The Group generates income from the disposal of property. Income from the disposal of property is recognised when title and effective control of the property is transferred to the buyer. A transfer is assumed to take place when the LEG Group transfers title and effective control of the property sold to the buyer and it is probable that the income from the disposal will flow to the LEG Group.

By contrast, income is not recognised if the LEG Group assumes yield guarantees, grants a right of return to the buyer or enters into other material obligations with respect to the buyer that prevent a transfer of control to the buyer.

Income represents the contractually agreed transaction price. In general the consideration is due when the legal title is transferred. In rare cases deferred payments can be agreed. However these do not exceed twelve months. For this reason, no significant financing component is included in the transaction price.

a) Income from other services

Income from other services covers income from services and third-party management.

Income from other services is recognised as income for a period of time, as the customer directly receives and uses the benefits from the service. The transaction price and its due date are based on the agreed contractual conditions.

b) Interest and similar income

Interest income is recognised using the effective interest method in the period in which it arises.

20 | Government grants

The LEG Group has primarily received government grants in the form of loans at below-market interest rates.

These loans at below-market rates are property loans and are reported as financial liabilities. They provide benefits compared to regular loans, such as lower interest rates or periods free of interest and principal payments. The loans were measured at fair value when the company was acquired in 2008 and carried at amortised cost in subsequent periods.

On initial recognition, new investment loans and loans at below-market rates are measured at their present value based on the applicable market interest rate at the grant date. The difference between the nominal amount and the present value of the loan is recognised as deferred income (other liabilities, see > section E.12) and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

The difference between the nominal amount and the present value of the loan is recognised as deferred income (other liabilities, see > section E.12).

21 | Income taxes

The income tax expense represents the total of the current tax expense and the deferred taxes.

The LEG Group is only subject to taxation in Germany. Some judgements have to be made in assessing income tax receivables and liabilities. It cannot be ruled out that the tax authorities will make a different assessment. The uncertainty this entails is taken into account by only recognising uncertain tax receivables and liabilities when the LEG Group considers their probability of occurrence to be higher than 50 %. Any changes in judgements, e. g. due to final tax assessments, affect current and deferred tax items. The best estimate of the provisionally expected tax payment is used for recognised uncertain income tax items.

The current tax expense is calculated on the basis of the taxable income for the year. Taxable income differs from the consolidated net profit for the period, as shown in the consolidated statement of comprehensive income, due to income and expenses that are only taxable or tax-deductible in future periods, if at all. The Group's liabilities and provisions for current taxes are calculated on the basis of the applicable tax rates.

Deferred taxes are recognised for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base for the purpose of calculating taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised or deferred tax liabilities exist. Deferred tax assets also include reductions in taxes resulting from the expected utilisation of existing tax loss carryforwards (or similar items) in subsequent periods if realisation is reasonably assured.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met. In accordance with IAS 12, a company must recognise deferred taxes (outside basis differences) for taxable and deductible temporary differences between the consolidated IFRS net assets and the carrying amount in the tax accounts of interests in subsidiaries, associates and joint arrangements under certain conditions.

Deferred tax liabilities and deferred tax assets are calculated on the basis of the tax rates (and tax legislation) that are expected to be in force when the liability is settled or the asset is realised. This is based on the tax legislation in force or adopted by the Bundestag (Lower House of the German Parliament) and, where applicable, the Bundesrat (Upper House of the German Parliament) as at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Group expects to settle the deferred tax liabilities or realise the deferred tax assets as at the end of the reporting period.

Current or deferred taxes are recognised in profit or loss unless they relate to items that are recognised in other comprehensive income or recognised directly in equity. In this case, the corresponding current and deferred taxes are recognised in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and to the same taxable entity. In addition, only deferred taxes that relate to items of the statement of financial position with the same maturity are netted.

22 | Judgements

The management is required to use judgement in applying the accounting policies. This applies in particular to the following items:

- For assets held for sale, it must be determined whether the assets can be sold in their present condition and whether their disposal can be considered highly likely within the meaning of IFRS 5. If this is the case, the assets and any corresponding liabilities are reported and measured as assets and liabilities held for disposal.

- It must be determined whether property should be classified as inventories or investment property depending on the intended use.

- Buildings that are both owner-occupied and used by third parties must be reported as separate assets in accordance with IAS 16 and IAS 40, unless the owner-occupied component is immaterial.

- In the context of portfolio acquisitions, non-controlling interests are reported if material risks and rewards lie with the minority shareholder.

- Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities. When calculating the fair value of derivative financial instruments, the input parameters for the valuation models are the relevant market prices and interest rates observed as of the end of the reporting period, which are obtained from recognised external sources.

23 | Use of estimates

The preparation of IFRS consolidated financial statements requires assumptions and estimates affecting the carrying amounts of the assets and liabilities recognised, income and expenses and the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to:

- Measurement of investment property: significant measurement parameters include the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. If market values cannot be derived from transactions for similar properties, they are measured using the DCF method, under which future cash flows are discounted to the end of the reporting period. These estimates involve assumptions concerning the future. In light of the large number of properties affected and their geographical distribution, individual measurement uncertainties are subject to statistical smoothing. Measurement is performed on the basis of publicly available market data (e. g. property market reports by expert committees, data from the service provider INWIS, etc.) and the extensive knowledge of the LEG Group and its subsidiaries in the respective regional submarkets.

- Recognition and measurement of provisions for pensions and similar obligations: Provisions for pensions and similar obligations are measured on the basis of actuarial calculations, applying assumptions with regard to interest rates, future wage and salary increases, mortality tables and future pension growth.

- Recognition and measurement of other provisions: Recognition and measurement is subject to uncertainty concerning future price growth and the amount, timing and probability of utilisation of the respective provision.

- Measurement of financial liabilities: The measurement of financial liabilities depends in particular on estimates of future cash flows and potential changes in terms. Estimates of the company-specific risk premium are also required.

- Recognition of deferred tax assets: Deferred tax assets are recognised if it is probable that future tax benefits will be realised. The actual taxable income in future financial years, and hence the extent to which deferred tax assets can be utilised, can deviate from the estimates made when the deferred tax assets are recognised. Deferred tax assets for tax loss carryforwards are recognised on the basis of future taxable income for a planning period of five financial years.

- Share-based payment (IFRS 2): Assumptions and judgements regarding the development of performance indicators and fluctuation are required in accounting for stock option plans. They are calculated using option pricing models.

- Goodwill impairment test: The calculation of the FVLCOD requires assumptions and judgements regarding future EBIT development and sustainable growth rates in particular.

- When accounting for business combinations, all identifiable assets, liabilities and contingent liabilities are carried at fair value to the acquisition date. There is estimation uncertainty relating to the determination of these fair values. Land and buildings are generally measured on the basis of an independent valuations, technical equipment and machinery at estimated replacement cost. Identifying and measuring intangible assets takes place in line with the type of intangible asset and the complexity of determining fair values using appropriate measurement techniques.

Further information on assumptions and estimates made by management can be found in the disclosures to the individual items of the financial statements. All assumptions and estimates are based on the prevailing circumstances and assessments as at the end of the reporting period.

The estimation of future business development also takes into account the future economic environment that is currently assumed to be realistic in the industries and regions in which the LEG Group operates.

Although the management considers assumptions and estimates applied to be appropriate, unforeseeable changes to these assumptions could affect the Group's net assets, financial position and results of operations.

24 | Share-based payment

The LEG Group has share-based remuneration plans (share option plans) for members of the Management Board of LEG Immo. In line with IFRS 2, the share option plans in the context of the long-term incentive programme are treated as cash-settled share-based remuneration. The provisions for these obligations are established at the level of the expected expense, with them being distributed pro rata across the defined vesting period. The fair value of the options is determined using recognised financial models.

Details of share-based payment can be found in > section I. 6.

E. Notes to the consolidated statement of financial position

1 | Investment properties

Investment property developed as follows in the 2018 and 2017 financial years:

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Investment properties

€ million	2018	2017
Carrying amount as of 01.01.	**9,460.7**	**7,954.9**
Acquisitions	292.3	396.8
Other additions	174.0	112.7
Reclassified to assets held for sale	– 34.8	– 41.0
Reclassified from assets held for sale	15.8	0.0
Reclassified to property, plant and equipment	– 1.3	– 4.4
Reclassified from property, plant and equipment	1.4	4.9
Fair value adjustment	800.9	1.036.8
Carrying amount as of 31.12.	**10,709.0**	**9,460.7**

The acquisitions include the following portfolios:

Portfolio acquisition 1
The acquisition of a property portfolio of around 304 residential units was notarised on 2 August 2017. The portfolio generates annual net cold rent of around EUR 1.7 million. The average in-place rent is around EUR 6.7 per square metre and the initial vacancy rate is around 1.4 %. The transaction was closed on 1 January 2018. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Portfolio acquisition 2
The acquisition of a property portfolio of around 3,788 residential and commercial units was notarised on 10 August 2018. The portfolio generates annual net cold rent of around EUR 13.7 million. The average in-place rent is around EUR 4.80 per square metre and the initial vacancy rate is around 4.9 %. The transaction was closed on 1 October 2018. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Other additions in the financial year essentially relate to investments in existing properties. The biggest investments in 2018 include the energy modernisation of properties in Dortmund, Monheim, Münster, Mönchengladbach and Cologne.

Investment property broke down as follows in the 2018 and 2017 financial years:

T67

Composition of investment properties

	31.12.2018		31.12.2017	
€ million	Investment properties	Properties held for sale	Investment properties	Properties held for sale
Developed land	10,488.0	18.7	9,255.1	27.9
Undeveloped land	27.3	1.3	25.1	2.3
Other	193.7	0.3	180.5	0.7
Total	**10,709.0**	**20.3**	**9,460.7**	**30.9**

The situation on the property markets is still characterised by relatively low returns on purchase prices. The monitoring of market transactions performed in the year under review is reflected in the calculation of fair values with corresponding discount rates. The measurement methods selected take into account both the general market environment and LEG Group's typically strong operating activities.

Sensitivities were as follows as at 31 December 2018:

T68

Sensitivity analysis 2018

Segment	GAV investment properties € million	Valuation technique[3]	Sensitivities GAV (variance discount rate) in %		Sensitivities GAV (variance cap rate) in %	
			−25 bps	+25 bps	−25 bps	+25 bps
Residential assets[1]						
High-growth markets	4,604	Discounted Cashflows	5.1	−4.7	3.2	−2.9
Stable markets	3,298	Discounted Cashflows	4.4	−4.1	2.6	−2.4
Higher-yielding markets	2,215	Discounted Cashflows	4.1	−3.9	2.1	−2.0
Non NRW	165	Discounted Cashflows	4.4	−4.1	2.5	−2.3
Commercial assets[2]	219	Discounted Cashflows	2.6	−2.5	2.2	−2.0
Parking + other assets	185	Discounted Cashflows	5.1	−4.7	1.9	−1.7
Leasehold + land values	37	Earnings/ reference value method	–	–	–	–
Total IAS 40/ IFRS 5[4]	**10,724**	**Discounted Cashflows**	**4.6**	**−4.3**	**2.8**	**−2.5**

[1] Excluding 372 residential units in commercial buildings; including 462 commercial and other units in mixed residential assets.
[2] Excluding 462 commercial units in mixed residential assets; including 372 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

Sensitivities were as follows as at 31 December 2017:

T69

Sensitivity analysis 2017

Segment	GAV investment properties € million	Valuation technique[3]	Sensitivities GAV (variance discount rate) in % –25 bps	Sensitivities GAV (variance discount rate) in % +25 bps	Sensitivities GAV (variance cap rate) in % –25 bps	Sensitivities GAV (variance cap rate) in % +25 bps
Residential assets[1]						
High-growth markets	4,174	Discounted Cashflows	5.0	– 4.6	3.1	– 2.7
Stable markets	2,838	Discounted Cashflows	4.0	– 4.1	2.2	– 2.3
Higher-yielding markets	1,923	Discounted Cashflows	3.8	– 3.8	1.9	– 2.0
Non NRW	146	Discounted Cashflows	4.1	– 3.9	2.2	– 2.1
Commercial assets 2	198	Discounted Cashflows	2.9	– 2.1	2.4	– 1.6
Parking + other assets	167	Discounted Cashflows	5.1	– 4.5	2.0	– 1.6
Leasehold + land values	33	Earnings/ reference value method	–	–	–	–
Total IAS 40/ IFRS 5[4]	**9,479**	**Discounted Cashflows**	**4.4**	**– 4.2**	**2.5**	**– 2.4**

[1] Excluding 375 residential units in commercial buildings; including 425 commercial and other units in mixed residential assets.
[2] Excluding 425 commercial units in mixed residential assets; including 375 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

Some investment property is let under the terms of commercial rental agreements and leases. These rental agreements and leases generally have a term of ten years and contain extension options for a maximum of two-times five years.

The Group also has land with third-party heritable building rights with an original contractual term that is generally between 75 and 99 years.

There are also leases for advertising space.

The rental agreements for residential property concluded by the LEG Group can generally be terminated by the tenant giving three months' notice to the end of the month. Accordingly, fixed cash flows in the amount of three monthly rents are expected from these rental agreements.

The following amounts are expected to be due over the coming years based on the minimum lease instalments for long-term rental agreements for commercial property and leases for advertising space that were in place as at 31 December 2018:

T70

Amount based on minimum lease instalments for long-term rental agreements

	Remaining terms			**Total**
€ million	up to 1 year	> 1 to 5 years	> 5 years	
31.12.2018	**17.3**	**33.6**	**21.0**	**71.9**
31.12.2017	17.5	35.6	25.1	78.2

Investment property is used almost exclusively as collateral for financial liabilities – see also > E. 11.

2| Property, plant and equipment

The development of property, plant and equipment is shown in the consolidated statement of changes in assets **(Annex I).**

Assets under finance leases had the following net carrying amounts as at the end of the reporting period

T71

Assets under finance leases

€ million	**31.12.2018**	31.12.2017
Heat-generating plants	6.9	8.8
Measuring instruments	5.7	5.8
Smoke alarms	3.5	3.8
Software	0.5	0.6
Total	**16.6**	**19.0**

The year-on-year decline in the net carrying amounts primarily resulted from depreciation in the financial year.

3| Intangible assets

The development of intangible assets is shown in the consolidated statement of changes in assets **(Annex I)**.

4| Other financial assets

Other financial assets are composed as follows:

T72

Other financial assets

€ million	**31.12.2018**	31.12.2017
Investments in affiliates not included in consolidation	0.1	0.1
Investments in equity investments and associates	9.1	1.1
Other financial assets	1.6	1.8
Total	**10.8**	**3.0**

Details of other financial assets can be found in > section I. 3.

5 | Receivables and other assets

Receivables and other assets are composed as follows:

T73

Receivables and other assets

€ million	31.12.2018	31.12.2017
Trade receivables, gross	33.9	37.1
Impairment losses	– 18.1	– 14.6
Total	**15.8**	**22.5**
Thereof attributable to rental and leasing	7.6	9.1
Thereof attributable to property disposals	0.9	6.0
Thereof attributable to other receivables	7.3	7.4
Thereof with a remaining term up to 1 year	15.8	22.5
Thereof with a remaining term of between 1 – 5 years	–	–
Receivables from uninvoiced operating costs	4.6	11.3
Other financial assets	17.6	13.5
Other miscellaneous assets	9.7	11.4
Total	**31.9**	**36.2**
Thereof with a remaining term up to 1 year	31.7	33.9
Thereof with a remaining term of between 1 – 5 years	0.2	2.3
Total receivables and other assets	**47.7**	**58.7**

Details of related parties can be found in > section I. 7.

6 | Cash and cash equivalents

T74

Cash and cash equivalents

€ million	31.12.2018	31.12.2017
Bank balances	233.6	285.4
Cash on hand	0.0	0.0
Cash and cash equivalents	**233.6**	**285.4**
Restricted disposal balances	5.6	1.1

Bank balances have variable interest rates for overnight deposits. Short-term deposits are made for periods of between one day and three months, depending on the Group's liquidity requirements. Cash and cash equivalents include balances with a fixed purpose. These are reported as balances with restricted access.

7 | Assets held for sale

T75

Assets held for sale

€ million	2018	2017
Carrying amount as of 01.01.	**30.9**	**57.0**
Reclassified from investment properties	34.8	41.0
Reclassified from property, plant and equipment	– 15.8	0.0
Disposal due to sale of land and buildings	– 29.6	– 67.4
Other additions	0.0	0.3
Carrying amount as of 31.12.	**20.3**	**30.9**

Investment property was sold again in the reporting period for the purposes of selective portfolio streamlining.

For information on reclassifications from investment property, please see > section E. 1.

The reclassifications to investment properties mainly relate to individual objects where the intention to sell no longer exists.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped land and residential and commercial buildings. The disposals relate to smaller block sales and several smaller individual sales.

See also > section F. 3.

8| Equity

The change in equity components is shown in the statement of changes in equity.

a) Share capital
The Annual General Meeting of 17 May 2018 amended the Contingent Capital 2013/2017 resolved by the Annual General Meeting on 17 May 2017 and revised Article 4.2 of the Articles of Association accordingly. By way of resolution of the Annual General Meeting on 17 May 2017, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by up to a total of EUR 31,594,092 by issuing up to 31,594,092 new registered shares against cash or non-cash contributions by 16 May 2022 (Authorised Capital 2017).

The share capital is contingently increased by up to EUR 31,594,092 through the issue of up to 31,594,092 new no-par value bearer shares (Contingent Capital 2013/2017/2018).

b) Cumulative other reserves
Cumulative other reserves consist of the Group's retained earnings and other reserves.

Retained earnings are composed of the net profits generated by the companies included in consolidation in prior periods and the current period, to the extent that these have not been distributed.

Other reserves consist of adjustments to the fair values of derivatives used as hedging instruments and actuarial gains and losses from the remeasurement of pension provisions.

In the 2018 financial year, there was a distribution to the shareholders of the company for 2017 in the form of a dividend of EUR 192.1 million (EUR 3.04 per share).

The first-time adoption of IFRS 9 includes the realisation of hidden reserves for equity investments of EUR 9.7 million. Cumulative other reserves include the counterparty of the annual guaranteed dividend of EUR 1.8 million to the non-controlling interest of TSP-TechnikServicePlus GmbH. In addition, the application of the new expected credit loss model results in loss allowances increasing by EUR 1.9 million, reported directly in equity (cumulative reserves). In addition, cumulative other reserves declined by EUR 1.4 million due to the recognition of an obligation for future guarantee payments. This obligation is to the non-controlling interest in German Property Dusseldorf GmbH.

c) Non-controlling interests
Non-controlling interests in other comprehensive income were composed as follows:

T76

Non-controlling interest in other comprehensive income

€ million	**31.12.2018**	31.12.2017
Actuarial gains and losses from the measurement of pension obligations	0.0	0.0
Fair value adjustments comprehensive income	0.0	0.0
Non-controlling interest in other comprehensive income	**0.0**	**0.0**

9| Pension provisions

Expenses for defined contribution plans amounted to EUR 4.7 million in the year under review (2017: EUR 4.5 million). These essentially comprise contributions to the statutory pension scheme.

In connection with defined benefit plans, the LEG Group uses actuarial calculations by actuaries to ensure that future developments are taken into account in the calculation of expenses and obligations. Among other things, these calculations are based on assumptions regarding the discount rate and future wage and salary developments.

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

T77

Calculation of pension provisions

in %	31.12.2018	31.12.2017
Discounting rate	1.70	1.60
Salary trend	2.75	2.75
Pension trend	2.00	2.00

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2018 (present value of obligation as at 31 December 2018: EUR 149.3 million):

T78

Sensitivity of pension provisions 2018

€ million		
Discount rate (increase and decrease by 0.5 % pts.)	139.1	160.8
Salary trend (increase and decrease by 0.5 % pts.)	150.7	147.9
Mortality (increase and decrease by 10 %)	143.7	155.7
Pension trend (increase and decrease by 0.25 % pts.)	153.5	145.3

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2017 (present value of obligation as at 31 December 2017: EUR 155.6 million):

T79

Sensitivity of pension provisions 2017

€ million		
Discount rate (increase and decrease by 0.5 % pts.)	144.7	167.8
Salary trend (increase and decrease by 0.5 % pts.)	157.2	154.0
Mortality (increase and decrease by 10 %)	149.6	162.3
Pension trend (increase and decrease by 0.25 % pts.)	160.0	151.3

Increases or reductions in the discount rate, the salary trend, the pension trend and mortality do not affect the calculation of the defined benefit obligation (DBO) with the same absolute amount.

If several assumptions are changed at the same time, the total amount is not necessarily the same as the total of the individual effects resulting from the changes in assumptions. It should also be noted that the sensitivities reflect a change in the DBO only for the specific respective degree of the change in assumptions (e. g. 0.5 %). If the assumptions change to a different extent this will not necessarily have a straight-line impact on the DBO.

The following table shows the development of pension obligations. In the absence of plan assets, the present value of the obligation in both years is the same as both the recognised provision and the plan deficit.

T80

Development of pension obligations

€ million	2018	2017
Present value of obligations as of 01.01.	**155.6**	**161.7**
Service cost	1.6	1.7
Interest expenses	2.4	2.4
Disposals	–	–
Payments	–6.7	–6.6
Remeasurement	–3.6	–3.6
Thereof losses (gains) from changes in experience	–3.1	–1.3
Thereof losses (gains) arising from changes in financial assumptions	–2.2	–2.3
Thereof losses (gains) arising from changes in demographic assumptions	1.7	–
Present value of obligations as of 31.12.	**149.3**	**155.6**

EUR 40.9 million of the present value of the obligation relates to current employees covered by the plan (2017: EUR 46.8 million), EUR 12.5 million to employees who have left the company and whose rights are not yet vested (2017: EUR 11.8 million) and EUR 95.9 million to pensioners (2017: EUR 96.9 million).

A pension payment of EUR 6.9 million (2017: EUR 7.0 million) is expected for 2018. The duration of the defined benefit obligation is 13.9 years (2017: 14.2 years).

10 | Other provisions

Other provisions are composed as follows:

T81

Other provisions

€ million	**31.12.2018**	31.12.2017
Provisions for partial retirement	1.3	1.0
Staff provisions	**1.3**	**1.0**
Construction book provisions	3.1	2.8
Provisions for other risks	14.6	14.7
Provisions for litigation risks	1.1	1.8
Provisions for lease properties	0.4	0.7
Provision for costs of annual financial statements	1.3	0.9
Archiving provision	0.5	0.4
Other provisions	**21.0**	**21.3**

Details of the development of provisions can be found in **Annex ii**.

Construction book provisions contain amounts for outstanding measures and guarantees relating to development projects and property development measures.

The other provisions essentially relate to obligations from a former residential property development project with 47 detached houses.

The cash outflows from provisions are expected to amount to EUR 17.8 million within one year (previous year: EUR 12.9 million) and EUR 4.6 million after one year (previous year: EUR 9.4 million).

11 | Financing liabilities

Financing liabilities are composed as follows:

T82

Financing liabilities

€ million	**31.12.2018**	31.12.2017
Financing liabilities from real estate financing	4,575.0	4,273.9
Financing liabilities from lease financing	23.1	25.7
Financing liabilities	**4,598.1**	**4,299.6**

Financing liabilities from real estate financing serve the financing of investment properties.

The consolidated financial statements of LEG Immobilien AG reported financial liabilities from real estate financing of EUR 4,575.0 million as at 31 December 2018.

Financing liabilities from real estate financing include convertible bonds with a nominal value of EUR 300.0 million and an IFRS carrying amount of EUR 282.3 million and with a nominal value of EUR 400 million and an IFRS carrying amount of EUR 385.0 million. This also includes the corporate bond with a nominal value of EUR 500.0 million and an IFRS carrying amount of EUR 501.1 million as at 31 December 2018.

Financing liabilities from real estate financing increased largely due to valuations of further tranches of a subsidised loan from the European Investment Bank of EUR 75.0 million, new borrowings and other liabilities of EUR 467.7 million and amortisation effects of the effective interest method of EUR 14.0 million. This was countervailed by scheduled and unscheduled repayments of loans amounting to EUR 252.3 million.

The equity interests in individual companies and rent receivables also serve as security for certain loan agreements. The expected rent pledged as security amounted to EUR 496.7 million in the 2018 financial year (2017: EUR 467.1 million).

In addition to security in the form of land charges, potential receivables from buildings insurance have been pledged to the creditors of the respective land charges. By contrast, the security provided in the form of pledged rent receivables is increased by the corresponding receivables for incidental costs. For certain loan agreements there are also additional surety bonds and the joint and several liabilities of additional LEG companies to the bank.

a) Financing liabilities from real estate financing

The maturities shown in the consolidated financial statements are based on the contractually agreed maturities.

The remaining terms of financing liabilities from real estate financing are composed as follows:

T83

Maturity of financing liabilities from real estate financing

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2018	**479.1**	**920.8**	**3,175.1**	**4,575.0**
31.12.2017	472.5	784.4	3,017.0	4,273.9

b) Financing liabilities from lease financing

Financing liabilities from lease financing are composed as follows:

T84

Maturity of financing liabilities from lease financing

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2018	**5.7**	**11.0**	**6.4**	**23.1**
31.12.2017	5.6	12.6	7.5	25.7

Future minimum lease payments are derived as follows as at 31 December 2018:

T85

Future minimum lease payments as at 2018

	Remaining term			Total 31.12.2018
€ million	< 1 year	> 1 and 5 years	> 5 years	
Minimum lease payments	5.2	13.5	22.2	**40.9**
Financing costs	– 0.5	2.5	15.8	**17.8**
Present value of minimum lease payments	5.7	11.0	6.4	**23.1**

The reconciliation as at 31 December 2017 is as follows:

T86

Future minimum lease payments as at 2017

	Remaining term			Total 31.12.2017
€ million	< 1 year	> 1 and 5 years	> 5 years	
Minimum lease payments	5.3	15.5	23.7	**44.5**
Financing costs	– 0.3	2.9	16.2	**18.8**
Present value of minimum lease payments	5.6	12.6	7.5	**25.7**

Detailed information on lease financing can be found in > section E. 2.

12 | Other liabilities

Other liabilities are composed as follows:

T87

Other liabilities

€ million	31.12.2018	31.12.2017
Interest derivatives	283.1	321.0
Advance payments received	40.5	42.7
Liabilities from shareholder loans	0.6	0.5
Trade payables	101.1	89.2
Rental and lease liabilities	21.0	20.6
Liabilities from other taxes	0.8	1.1
Liabilities to employees	10.1	10.9
Social security liabilities	0.1	0.4
Operating cost liabilities	0.6	0.9
Interest benefit recognised as a liability	4.9	2.8
Other miscellaneous liabilities	68.0	69.1
Other liabilities	**530.8**	**559.2**
Thereof with a remaining term up to 1 year	396.1	413.6
Thereof with a remaining term of between 1 – 5 years	25.0	18.3
Thereof with a remaining term of more than 5 years	109.7	127.3

The decrease in other liabilities resulting from derivative financial instruments resulted primarily from the changes in the fair value of the derivatives from the convertible bonds.

13 | Deferred tax assets and liabilities

Deferred tax assets and liabilities result from temporary differences between the IFRS and tax carrying amounts and tax loss carryforwards and are broken down as follows:

T88

Deferred tax assets and liabilities

	31.12.2018		31.12.2017	
€ million	Aktive latente Steuern	Passive latente Steuern	Aktive latente Steuern	Passive latente Steuern
Non-current assets				
Investment properties	3.0	1,154.7	1.6	920.3
Other miscellaneous non-current assets	1.8	7.6	2.3	7.4
Current assets	2.4	4.3	2.7	3.4
Non-current liabilities				
Pension provisions	23.1	–	24.5	–
Other provisions	0.8	–	2.5	–
Other non-current liabilities	12.6	30.8	13.6	34.2
Current liabilities				
Other provisions	2.0	19.4	1.2	19.4
Other current liabilities	31.5	0.6	34.7	0.4
Total deferred taxes from temporary differences	**77.2**	**1,217.4**	**83.1**	**985.1**
Deferred taxes on loss carryforwards	47.0	–	55.5	–
Total deferred taxes	**124.2**	**1,217.4**	**138.6**	**985.1**
Netting	116.8	116.8	129.9	129.9
Carrying amount	**7.4**	**1,100.6**	**8.7**	**855.2**

The deferred taxes from non-current assets and non-current liabilities in the table above are expected to reverse more than twelve months after the end of the reporting period.

T89

Deferred tax assets from tax loss

€ million	31.12.2018	31.12.2017
Corporation tax	22.6	28.9
Trade tax	24.4	26.6
Total	**47.0**	**55.5**

Deferred tax assets from unused tax losses are recognised in the same amount as deferred tax liabilities from temporary differences. Deferred tax assets from unused tax losses in excess of this amount are recognised to the extent that it is probable that the company will generate taxable income. No deferred tax assets were recognised on tax loss and interest carryforwards of EUR 414.1 million as at the end of the reporting period (2017: EUR 387.5 million). Tax loss carryforwards are generally not vested.

Interest expenses are tax-deductible up to the amount of interest income. Above and beyond this amount, deductibility is limited to 30 % of taxable EBITDA for the financial year (interest barrier), unless the exemption limit or the equity escape clause comes into force.

Non-deductible interest expenses in the current financial year are carried forward to subsequent periods. Deferred tax assets are only recognised for interest carried forward to the extent that it is probable that the interest expenses can be utilised in subsequent financial years. Owing to the effective conclusion of profit transfer agreements between the subsidiaries that hold the property portfolios and the Group company LEG NRW GmbH in 2012 and the resulting fiscal entity for corporation and trade tax purposes, the interest barrier does not apply to the fiscal entity, as was the case in the previous year.

In the 2018 financial year, the remeasurement of primary and derivative financial instruments reduced equity by EUR 2.7 million (2017: decrease in equity of EUR 6.1 million), while actuarial gains and losses reduced equity by EUR 1.1 million (2017: decrease in equity of EUR 1.4 million). As at the end of the reporting period, deferred tax assets recognised directly in equity amounted to EUR 18.9 million (2017: EUR 22.7 million).

No deferred tax liabilities were recognised on temporary differences in connection with shares in subsidiaries, associates and joint ventures that are not expected to reverse in the foreseeable future in accordance with IAS 12.39 of EUR 24.2 million (2017: EUR 8.0 million).

F. Notes to the consolidated statement of comprehensive income

1 | Revenue

The LEG Group generates revenue from the transfer of goods and services both over a period in time and a point in time from the following areas:

T90

Revenues

	2018		
€ million	Rental and lease income	Income from the disposal of investment properties	Revenues from other services
Timing of revenue recognition			
At a certain point of time	–	29.5	11.7
Over a period of time	766.9	–	–
Total	**766.9**	**29.5**	**11.7**

The initial application of IFRS 15 did not result in any changes to the realisation of rental income as these are treated under IAS 17 Leases. Property tax and insurance are elements of the consideration and also are not within the scope of IFRS 15 but are recognized on a straight-line basis over the term of the rental agreement.

There are merely changes in recognising individual allocable operating costs for which the LEG Group qualifies as agent. The operating costs of cold water supply, draining and street cleaning, for which the LEG Group operates as agent, are recognised on a net basis as of 1 January 2018. This results in a reduction of revenue and the corresponding cost of sales at the same level, so that overall net rental and lease income remains unchanged.

The following overview summarises the assessment of whether a contract with a customer satisfies the definition of IFRS 15 and whether the LEG Group qualifies as a principal (gross revenue) or an agent (net revenue) in sales:

T91

Allocable operating costs

€ million	Principal – agent relations acc.to IFRS 15	2018	2017
Operating costs – land tax	–	24.4	23.5
Operating costs – cold water supply	Agent	35.1	36.6
Operating costs – draining	Agent	23.7	24.9
Operatings costs – hot water supply	Principal	0.4	0.9
Operatings costs – elevator	Principal	3.9	3.2
Operatings costs – waste disposal	Principal	33.4	31.8
Operatings costs – vermin control	Principal	0.5	0.4
Operatings costs – gardening	Principal	14.4	15.4
Operatings costs – chimney sweep	Principal	1.2	1.2
Operatings costs – caretaker	Principal	0.5	0.3
Operatings costs – property and liability insurance	–	23.7	24.4
Operatings costs – washing facilites	–	0.2	0.2
Operatings costs – smoke alarms	–	0.7	0.7
Operatings costs – heating costs / heat supply	Principal	43.9	53.3
Operatings costs – street cleaning	Agent	7.8	5.8
Operatings costs – cleaning of building	Principal	5.4	4.7
Operatings costs – lightning	Principal	2.0	5.4
Operatings costs – cabel and TV multimedia	Principal	4.6	2.8

Assets and liabilities from contracts with customers

T92

Assets and liabilities from customer contracts

€ million	2018	2017
Current assets from ancillary costs	4.6	11.3
Impairment of ancillary costs	– 0.6	n/a
Total assets from customer contracts	**4.0**	**11.3**
Current liabilities from customer contracts	– 38.5	– 39.1
Total liabilities from customer contracts	**– 38.5**	**– 39.1**

Revenues from operating costs relate to contracts with customers which separately amounted to EUR 271.9 million at the beginning of the period. These are countered by nettable assets of EUR 250.7 million.

2 | Net rental and lease income

T93

Net rental and lease income

€ million	2018	2017
Net cold rent	560.2	534.7
Net income from operating costs	– 4.5	– 2.8
Maintenance expenses for externally procured services	– 51.8	– 51.2
Employee benefits	– 60.3	– 55.8
Impairment losses on rent receivables	– 8.4	– 7.2
Depreciation	– 6.1	– 6.1
Others	– 10.5	– 12.2
Net rental and lease income	**418.6**	**399.4**
Net operating income margin (in %)	**74.7**	**74.7**
Non-recurring project costs – rental and lease	5.8	3.4
Depreciation	6.1	6.1
Net rental and lease income	**430.5**	**408.9**
Net operating income margin (in %)	**76.9**	**76.5**

The LEG Group increased its net rental and lease income by EUR 25.5 million (4.8 %) against the comparative period. In-place rent per square metre on a like-for-like basis rose by 3.0 % in the reporting period.

The rise in rental-related staff costs is due primarily to higher project-related expenses with a one-time character and additional staff build-up.

Adjusted net rental and lease income rose by 5.3 %, slightly more strongly than the rental trend. As a result, the adjusted net operating income (NOI) margin further slightly increased in the 2018 financial year.

3 | Net income from the disposal of investment properties

Net income from the disposal of investment properties is composed as follows:

T94

Net income from the disposal of investment properties

€ million	2018	2017
Income from the disposal of investment properties	29.5	66.5
Carrying amount of investment properties disposed of	– 29.5	– 67.4
Income / loss from the disposal of investment properties	**–**	**– 0.9**
Valuation gains due to disposal	1.8	2.1
Adjusted income / loss from the disposal of investment properties	**1.8**	**1.2**
Staff costs	– 0.6	– 0.4
Other operating expenses	– 0.3	– 0.1
Cost of sale in connection with investment properties sold	**– 0.9**	**– 0.5**
Net income from the disposal of investment properties	**– 0.9**	**– 1.4**

In comparison to the previous year, there were fewer disposals of investment property in the reporting period.

Sales of investment property amounted to EUR 29.5 million and relate mainly to objects which were reported as assets held for sale and were remeasured up to the agreed property value as of 31 December 2017.

4 | Changes in value of investment properties

Net income from the remeasurement of investment property amounted to EUR 800.9 million in 2018 (2017: EUR 1,036.8 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 8.2 % (2017: 12.4 %).

The average value of residential investment property (including IFRS 5 properties) was EUR 1,198 per square metre as at 31 December 2018 (31 December 2017: EUR 1,091 per square metre) including acquisitions and EUR 1,203 per square metre not including acquisitions. Including investments in modernisation and maintenance work, the average portfolio value thus developed by 10.3 % in the financial year (2017: 15.8 %).

The increase in the value of the portfolio is largely a result of the positive development of in-place rents and the reduction in the discount and capitalisation rate.

5 | Net income from other services

Net income from other services is composed as follows

T95

Net income from other services

€ million	2018	2017
Income from other services	**11.7**	**12.2**
Purchased services	– 0.9	– 0.9
Other operating expenses	– 2.1	– 1.8
Employee benefits	– 0.9	– 0.8
Depreciation, amortisation and write-downs	– 2.5	– 2.4
Expenses in connection with other services	**– 6.4**	**– 5.9**
Net income from other services	**5.3**	**6.3**

Other services include electricity and heat fed to the grid, IT services for third parties and management services for third-party properties.

Despite ongoing good levels of utilisation, the very good operating results of the electricity and heat generated in the previous year were not achieved in the 2018 financial year as a result of higher commodity prices.

6 | Administrative and other expenses

Administrative and other expenses are composed as follows:

T96

Administrative and other expenses

€ million	**2018**	2017
Other operating expenses	– 17.5	– 17.4
Staff costs	– 24.8	– 22.2
Purchased services	– 0.9	– 1.1
Depreciation, amortisation and write-downs	– 1.6	– 0.6
Administrative and other expenses	**– 44.8**	**– 41.3**

The other operating expenses contained in the table above are composed as follows:

T97

Other operating expenses

€ million	**2018**	2017
Legal and consulting costs	– 7.9	– 6.8
Rent and other costs of business premises	– 4.2	– 4.5
Annual financial statement, accounting and audit costs	– 2.0	– 1.6
Expenses for postage, telecommunications, IT	– 0.5	– 0.5
Temporary staff	– 0.7	– 1.0
Vehicles	– 0.4	– 0.4
Travel expenses	– 0.5	– 0.5
Advertising expenses	– 0.5	– 0.5
Other expenses	– 1.1	– 1.2
Others	0.3	– 0.4
Other operating expenses	**– 17.5**	**– 17.4**

The main driver for the increase in administrative and other expenses of EUR 3.5 million was the extraordinary staff costs which resulted in project costs increasing by EUR 1.8 million.

Adjusted administrative expenses increased moderately by 2.1 % to EUR 34.0 million and thus at a much lower rate than rental and lease income.

7 | Interest expenses

Interest expenses are composed as follows:

T98

Interest expenses

€ million	**2018**	2017
Interest expenses from real estate and bond financing	– 67.4	– 68.9
Interest expense from loan amortisation	– 14.0	– 57.8
Prepayment penalty	– 0.1	– 0.4
Interest expense from interest derivatives for real estate financing	– 10.4	– 12.4
Interest expense from change in pension provisions	– 2.4	– 2.4
Interest expense from interest on other assets and liabilities	– 0.4	– 0.4
Interest expenses from lease financing	– 0.8	– 0.9
Other interest expenses	– 13.8	– 9.1
Interest expenses	**– 109.3**	**– 152.3**

The decline in interest expense from loan amortisation results in particular from the effects of the replacement of subsidised loans of EUR 41.0 million in the 2017 financial year. Other subsidised loans were paid back in the financial year. One-time, additional amortisation expense as part of the refinancing amounted to EUR 0.9 million. Refinancing of the previous year reduced amortisation effects in the reporting period. Expenses were further reduced by positive valuation effects from subsidised loans in connection with IFRS 9.B5.4.6, relating to a change in the assumptions on the expected future cash flows of the subsidised loans.

Interest expenses from loan amortisation include the measurement effect of convertibles bond and the corporate bond of EUR 10.0 million (previous year: EUR 8.3 million).

The rise in other interest expenses results from a higher number of replaced interest rate derivatives in the reporting year compared to the previous year. The non-recurring effects from the replacement of interest rate derivatives amounted to EUR -13.4 million in the past financial year (previous year: EUR -9.1 million). The lower number of interest rate derivatives also had the effect of reducing interest expenses from interest rate derivatives.

8 | Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of standalone derivatives and the ineffective portion of interest hedging instruments are reported in net income from the fair value measurement of derivatives.

The net income from the fair value measurement of derivatives in the past financial year was EUR 25.4 million (previous year: EUR -138.2 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of the embedded derivative from the convertible bond of EUR 26.5 million (previous year: EUR -138.8 million).

Ineffective hedges of EUR 0.2 million (previous year: EUR 0.2 million) were reportable for the 2018 financial year.

9 | Income taxes

Income tax expense and income are broken down by origin as follows:

T99

Income taxes

€ million	**2018**	2017
Current income taxes	– 6.5	– 8.2
Deferred taxes	– 242.8	– 267.3
Income taxes	**– 249.3**	**– 275.5**
Tax reimbursement for prior years	0.3	0.1

Based on the consolidated net profit before income taxes and the expected income tax expense, the reconciliation to current income taxes is as follows:

T100

Reconciliation to current income tax expenses

€ million	**2018**	2017
IFRS earnings before income taxes	1,096.4	1,120.3
Group tax rate in %	31.2	31.2
Forecast income taxes	**– 342.1**	**– 349.5**
Tax reduction due to tax-free income and off-balance sheet deductions	101.0	119.8
Additional taxes due to non-deductible expenses and off-balance sheet additions	– 4.2	– 6.2
Tax effect due to deferred tax assets on tax losses carryforwards and not recognised deferred tax assets due to lack of recoverability	– 4.0	– 48.5
Tax expenses relating to prior periods	– 0.1	– 5.3
Tax decreases/increases due to changes in tax rate	–	18.0
Other	0.1	– 3.8
Income taxes as per statement of comprehensive income	**– 249.3**	**– 275.5**
Effective tax rate in %	22.7	24.6

The deferred taxes from non-current assets and non-current liabilities are expected to reverse after more than twelve months after the end of the reporting period.

The tax rate applied in calculating theoretical income tax takes into account the current and expected future tax rates for corporate income tax (15 %), the solidarity surcharge (5.5 % of corporate income tax) and trade tax (15.4 %) based on a basic rate of 3.5 % and an average assessment rate of 440 % (city of Dusseldorf).

10 | Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the shareholders by the average number of shares outstanding during the financial year.

T101

Earnings per share (basic)

	2018	2017
Net profit or loss attributable to shareholders in € million	843.0	841.3
Average numbers of shares outstanding	63,188,185	63,188,185
Earnings per share (basic) in €	**13.34**	**13.31**

T102

Earnings per share (diluted)

	2018	2017
Net profit or loss attributable to shareholders in € million	843.0	841.3
Convertible bond coupon after taxes	3.9	2.0
Measurement of derivatives after taxes	– 26.5	138.8
Amortisation of the convertible bond after taxes	7.5	6.3
Net profit or loss for the period for diluted earnings per share	827.9	988.4
Average weighted number of shares outstanding	63,188,185	63,188,185
Number of potentially new shares in the event of exercise of conversion rights	9,022,414	6,956,023
Number of shares for diluted earnings per share	72,210,599	70,144,208
Intermedia result	**11.47**	**14.09**
Diluted earnings per share in €	**11.47**	**13.31**

As at 31 December 2018, LEG Immo had potential ordinary shares from convertible bonds, which authorise the bearer to convert it into up to 9.0 million shares.

Diluted earnings per share are calculated by increasing the average number of shares outstanding by the number of all potentially dilutive shares. The net profit/loss for the period is adjusted for the expenses no longer incurring for the interest coupon, the measurement of the embedded derivatives and the amortisation of the convertible bond and the resulting tax effect in the event of the conversion rights being exercised in full.

Owing in particular to the expenses no longer incurring in the event of conversion for the measurement of the embedded derivative, the potential ordinary shares from the convertible bond are not dilutive within the meaning of IAS 33.41 as at 31 December 2018.

The diluted earnings per share are therefore equal to basic earnings per share.

EPRA earnings per share – not an IFRS indicator

The following table shows earnings per share according to the best practice recommendations by EPRA (European Public Real Estate Association):

T103

EPRA earnings per share

€ million	Q4 2018	Q4 2017	2018	2017
Net profit or loss for the period attributableto parent shareholders	437.9	384.4	843.0	841.3
Changes in value of investment properties	– 417.4	– 555.7	– 800.9	– 1.036.8
Profits or losses on disposal of investment properties, development properties held for investment, other interests and sales of trading properties including impairment charges in respect of trading properties	0.3	0.6	2.5	3.7
Tax on losses on disposals and real estate inventory	0.4	– 0.5	1.1	1.6
Changes in fair value of financial instruments and associated close-out costs	– 74.6	75.0	– 25.4	138.2
Acquisition costs on share deals and non-controlling joint venture interests	0.1	0.9	0.8	1.7
Deferred tax in respect of EPRA-adjustments	106.1	132.0	232.8	262.3
Refinancing expenses	0.1	35.5	1.1	41.0
Other interest expenses	13.7	2.7	13.8	9.1
Non-controlling interests in respect of the above	– 0.1	– 0.7	0.2	– 0.1
EPRA earnings	**66.5**	**74.2**	**269.0**	**262.0**
Weighted average number of shares outstanding	63,188,185	63,188,185	63,188,185	63,188,185
= EPRA earnings per share (undiluted) in €	1.06	1.18	4.26	4.15
Potentially diluted shares	5,635,729	5,455,398	5,635,729	5,455,398
Interest coupon on convertible bond after taxes	0.3	0.2	1.2	1.1
Amortisation expenses convertible bond after taxes	1.4	1.2	5.7	4.9
EPRA earnings (diluted)	68.2	75.6	275.9	268.0
Number of diluted shares	68,823,914	68,643,583	68,823,914	68,643,583
= EPRA earnings per share (diluted) in €	**0.99**	**1.10**	**4.01**	**3.90**

G. Notes to the consolidated statement of cash flows

1 | Composition of cash and cash equivalents

The cash and cash equivalents shown in the statement of cash flows correspond to the cash and cash equivalents reported in the statement of financial position, i.e. cash on hand and bank balances.

2 | Other notes to the statement of cash flows

Payments for the purchase of German Property Düsseldorf GmbH amounted to EUR 32.5 million in 2018, including cash in bank assumed (EUR 0.0 million) as of 1 January.

LEG Immo received EUR 130.0 million from the issue of a private placement in the financial year.

In addition, LEG Immo received EUR 0.7 million in capital contributions from ESP as in the previous year.

Distribution to non-controlling interests relate to the non-controlling interest in ESP of EUR 1.0 million and the non-controlling interest in TSP of EUR 1.8 million.

The cash payments for the acquisition of companies in accordance with IFRS 3 are recognised as cash payments for consolidated companies, while payments related to acquisitions not in accordance with IFRS 3 are presented as cash payments for investment properties.

The cash outflow for the repayment of bank loans also included prepayment penalties and payments for the reversal of hedges incurred due to early loan repayments.

T104

Reconciliation financial liabilities 2018

			Non-Cash Changes				
€ million	01.01.2018	Cash Flows	Acquisition	Changes in fair value	Amortisation from effective interest method	Others	**31.12.2018**
Financial liabilities	4,273.9	290.3	–	–	14.0	–3.2	4,575.0
Lease liabilities	25.7	–4.6	2.0	–	–	–	23.1
Total	**4,299.6**	**285.7**	**2.0**	**–**	**14.0**	**–3.2**	**4,598.1**

T105

Reconciliation financial liabilities 2017

			Non-Cash Changes				
€ million	01.01.2017	Cash Flows	Acquisition	Changes in fair value	Amortisation from effective interest method	Others	31.12.2017
Financial liabilities	3,746.0	478.6	–	–	57.8	–8.5	4,273.9
Lease liabilities	28.3	–4.4	0.9	–	0.9	–	25.7
Total	**3,774.3**	**474.2**	**0.9**	**–**	**58.7**	**–8.5**	**4,299.6**

H. Notes on Group segment reporting

As a result of the revision of internal management reporting, LEG Immo has no longer been managed as two segments since the 2016 financial year. The Group is now managed as one segment.

I. Other disclosures

1 | Overview of cost types

The following cost types are contained in the various functions:

T106

Cost types

€ million	2018	2017
Purchased services	244.8	304.7
Employee benefits	87.7	80.9
Depreciation, amortisation and write-downs	10.3	9.2
Other operating expenses	60.0	51.9

Other operating expenses include income from the reversal of write-downs and provisions.

T107

Employee benefits

€ million	2018	2017
Wages and salaries	73.8	67.6
Social security	12.5	11.7
Pension and other benefits	1.4	1.6
Total	**87.7**	**80.9**

2 | Capital management

The aim of the Group's capital management is to ensure the continued existence of the company as a going concern while generating income for its shareholders, in addition to providing all other stakeholders of the LEG Group with the benefits to which they are entitled. Overall, the aim is to increase the value of the Group as a whole.

This end-to-end capital management strategy has not changed since the previous year.

As is typical for the industry, the LEG Group monitors capital on the basis of loan-to-value (LTV). LTV describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from financing liabilities.

As in the previous year, the Group's goal in the financial year was to maintain an appropriate level of gearing in order to ensure continued access to debt financing in the long term at economically appropriate costs. LTV as at 31 December 2018 and 31 December 2017 was calculated as follows:

T108

Net gearing (LTV)

€ million	31.12.2018	31.12.2017
Financing liabilities	4.598.1	4.299.6
Cash and cash equivalents	233.6	285.4
Net debt	**4,364.5**	**4,014.2**
Investment properties	10,709.0	9,460.7
Assets held for sale	20.3	30.9
Prepayments for investment properties	–	2.0
Total	**10,729.3**	**9,493.6**
Net gearing (LTV) in %	**40.7**	**42.3**

The assets held for sale shown in the above table relate solely to investment property.

The Group is subject to external capital requirements that were not breached in either the year under review or the previous year. The aims of capital management were achieved in the year under review.

Details of restricted funds can be found in > section E. 6.

3 | Financial instruments

a) Other disclosures on financial instruments

The table below shows the financial assets and liabilities broken down by measurement category and class. Receivables and liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an IFRS 9 measurement category. Non-financial assets and non-financial assets are also included for the purposes of reconciliation even though they are not covered by IFRS 7:

T109

Classes of financial instruments for financial assets and liabilities 2018

€ million	Carrying amounts as per statement of financial positions 31.12.2018	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2018
Assets					
Other financial assets	**10.7**				**10.7**
AC	0.1	0.1	0.0		0.1
FVtPL	10.6	10.6			10.6
Hedge accounting derivatives	–				–
Receivables and other assets	**47.7**				**47.7**
AC	38.1	38.1			38.1
Other non-financial assets	9.6				9.6
Cash and cash equivalents	**233.6**				**233.6**
AC	233.6	233.6			233.6
Total	**292.0**	**282.4**	**0.0**		**292.0**
Of which IFRS 9 measurement categories					
AC	271.8	271.8			271.8
FVtPL	10.6	10.6			n/a

AC = Amortised Cost
FVtPL = Fair Value through profit and loss

€ million	Carrying amounts as per statement of financial positions 31.12.2018	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2018
Equity and liabilities					
Financial liabilities	**– 4,598.1**				**– 4,747.4**
FLAC	– 4,575.0	– 4,575.0			– 4,724.0
Liabilities from lease financing	– 23.1			– 23.1	– 23.4
Other liabilities	**– 530.8**				**– 530.3**
FLAC	– 109.4	– 109.4			– 108.9
Derivatives HFT	– 262.2		– 262.2		– 262.2
Hedge accounting derivatives	– 20.8				– 20.8
Other non-financial liabilities	– 138.4				– 138.4
Total	**– 5,128.9**	**– 4,684.4**	**– 262.2**	**– 23.1**	**– 5,277.7**
Of which IFRS 9 measurement categories					
FLAC	– 4,684.4	– 4,684.4			– 4,832.9
Derivatives HFT	– 262.2		– 262.2		– 262.2

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

T110

Classes of financial instruments for financial assets and liabilities 2017

€ million	Carrying amounts as per statement of financial positions 31.12.2017	Measurement (IAS 39) Amortised cost	Measurement (IAS 39) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2017
Assets					
Other financial assets	**3.0**	**3.0**			**3.0**
LaR	0.1	0.1	0.0		0.1
AfS	2.6	2.6			n/a
Hedge accounting derivatives	0.3				0.3
Receivables and other assets	**58.7**	**58.7**			**58.7**
LaR	49.8	49.8			49.8
Other non-financial assets	8.9				8.9
Cash and cash equivalents	**285.4**				**285.4**
LaR	285.4	285.4			285.4
Total	**347.1**	**347.1**	**0.0**		**347.1**
Of which IAS 39 measurement categories					
LaR	335.3	335.3			335.3
AfS	2.6	2.6			n/a

LaR = Loans and Receivables
AfS = Available for Sale

€ million	Carrying amounts as per statement of financial positions 31.12.2017	Measurement (IAS 39) Amortised cost	Measurement (IAS 39) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2017
Equity and liabilities					
Financial liabilities	**– 4,299.6**				**– 4,586.2**
FLAC	– 4,273.9	– 4,273.9			– 4,560.0
Liabilities from lease financing	– 25.7			– 25.7	– 26.2
Other liabilities	**– 559.2**				**– 560.3**
FLAC	– 102.2	– 102.2			– 103.3
Derivatives HFT	– 289.7		– 289.7		– 289.7
Hedge accounting derivatives	– 31.3				– 31.3
Other non-financial liabilities	– 136.0				– 136.0
Total	**– 4,858.8**	**– 4,376.1**	**– 289.7**	**– 25.7**	**– 5,146.5**
Of which IAS 39 measurement categories					
FLAC	– 4,376.1	– 4,376.1			– 4,663.3
Derivatives HFT	– 289.7		– 289.7		– 289.7

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

LEG Immo holds very small equity investments in companies which are not equity instruments quotes of an active market. The equity investments were recognised under IAS 39 as available for sale instruments at cost. With the first time application of IFRS 9, the very small equity investments are recognised through profit and loss at fair value. In this connection, at the point of time of the IFRS 9 transition, hidden reserves were recognised. As of 31 December 2017, the carrying amount of the very small equity investments before the first-time application of IFRS 9 was EUR 1.1 million. As of 31 December 2017, the fair value of the very small equity investments totalled EUR 10.8 million. As a result hidden reserves of EUR 9.7 million were recognised and reported directly in equity (revenue reserves). As of 31 December 2018, the fair value of the very small equity investments was EUR 9.1 million. This results in a change of EUR 1.7 million (2016: EUR 6.9 million) which was recognised in profit or loss.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. Allocation to Level 3 takes place based on valuation models with inputs not observed on a market. This relates primarily to the capitalisation rate of 6.08%. As of 31 December 2018, the fair value of the very small equity investments was EUR 9.1 million. The stress test of this parameter on the basis of plus 50 bp results in the fair value being EUR 8.5 million lower and at minus 50 bp EUR 9.8 million higher.

Trade payables and other liabilities generally have short remaining terms, hence their carrying amounts approximate their fair value.

Originated financial instruments (liabilities from real estate and corporate financing, FLAC category), whose fair value does not correspond to their carrying amount are classified as financial liabilities. The fair value of loan liabilities is calculated as the present value of the future cash flows, taking into account the applicable risk-free interest rates and the LEG-specific risk premium as at the end of the reporting period.

Net income for each measurement category is broken down as follows::

T111

Net income

€ million	**2018**
AC	– 6.5
FVtPL (assets)	1.2
FVtPL (liabilities)	25.0
FLAC	– 82.2
Total	**– 62.5**

AC = Amortised Cost
FVtPL = Fair Value through profit and loss
FLAC = Financial Liabilities at Cost

T112

Net income

€ million	2017
LaR	– 5.0
AfS	3.5
FAHFT	–
FLHFT	– 138.8
FLAC	– 127.0
Total	**– 267.3**

LaR = Loans and Receivables
AfS = Available for Sale
FAHFT = Financial Assets Held for Trading
FLHFT = Financial Liabilities Held for Trading
FLAC = Financial Liabilities at Cost

Net income contains remeasurement effects in addition to interest income and expenses during the financial year.

b) Risk management

Principles of risk management:

The LEG Group is exposed to default risk, liquidity risk and market risk as a result of its use of financial instruments. In order to take these risks into account, the LEG Group has an effective risk management system supported by the clear functional organisation of the risk controlling process.

The effectiveness of the risk management system is reviewed and assessed regularly on a company-wide basis by the Internal Audit and Compliance unit. Where adjustments are necessary or areas for improvement are identified, the Internal Audit and Compliance unit advises on, examines and monitors these activities.

The framework for the Group's financial policy is determined by the Management Board and monitored by the Supervisory Board. The implementation of financial policy is the responsibility of the Corporate Finance and Treasury unit, while ongoing risk management is handled by Controlling and Risk Management. The use of derivative financial instruments is governed by a corresponding Treasury policy adopted by Management Board and acknowledged by the Supervisory Board. Derivative financial instruments can only be used to hedge existing underlyings, future cash flows and planned transactions whose occurrence is reasonably certain. Derivative financial instruments are only concluded to hedge against interest rate risks.

Default risk:

Credit or default risk describes the risk that business partners – primarily the tenants of the properties held by the LEG Group – will be unable to meet their contractual payment obligations and that this will result in a loss for the LEG Group. In order to prevent and control default risk to the greatest possible extent, new lettings are subject to credit checks.

Default risk exists for all classes of financial instruments, and in particular for trade receivables. The LEG Group is not exposed to significant default risk with regard to any individual party. The concentration of default risk is limited due to the Group's broad, heterogeneous tenant base.

There are gross receivables from rental and leasing activities of EUR 25.3 million (previous year: EUR 22.8 million). Allowances of EUR 17.7 million (previous year: EUR 13.8 million) were recognised, hence net rent receivables of EUR 7.6 million were reported as at 31 December 2018 (previous year: EUR 9.0 million). Collateral for receivables (primarily rent deposits) of EUR 17.1 million (previous year: EUR 15.2 million) can be taken into account only under restrictive conditions in the offsetting of outstanding receivables.

Offsetting is only possible if the receivable being offset:
- is undisputed or
- has been ruled legally binding or
- is manifestly substantiated.

Offsetting by the lessor against receivables that are manifestly disputed or not covered by the lease (such as receivables from operating expenses) is not permitted. In addition, the restrictions of section 9(5) sentence 1 of the Wohnungsbindungsgesetz (WoBindG – German Controlled Tenancy Act) must also be noted in particular.

Allowances on rent receivables were essentially recognised using simplified IFRS 9 without taking collateral into account.

With regard to cash and cash equivalents and derivatives, the LEG Group only enters into corresponding agreements with banks with extremely good credit ratings. The credit ratings of counterparties are monitored and assessed by the LEG Group on an ongoing basis, taking into account external ratings from various agencies (e.g. Standard & Poor's, Moody's, Fitch and others), the findings of internal research and financial market information. Depending on the availability of information with sufficient informative value, the LEG Group refers to one or more of the data sources described above. In the event of a substantial deterioration in the credit rating of a counterparty, the LEG Group takes efforts to ensure that its existing exposure is reduced as quickly as possible and that new exposures are no longer entered into with the respective counterparty.

As shown in the table below, the carrying amounts of recognised financial assets less any write-downs represent the highest default risk. The carrying amount of financial assets represents the maximum default risk. The default risk for interest rate derivatives is limited to the amount of the positive fair values of derivatives.

The table below shows the financial assets determined to be impaired as at the end of the reporting period:

T113

Impaired financial assets 2018

€ million classes of financial instruments 31.12.2018	Carrying amount before impairment	Impairment	**Residual carrying amount**
Loans	0.2	–	0.2
Other financial assets	23.9	– 0.4	23.5
Trade receivables	33.9	– 18.1	15.8
Cash and cash equivalents	233.6	–	233.6
Total	**291.6**	**– 18.5**	**273.1**

T114

Impaired financial assets 2017

€ million classes of financial instruments 31.12.2018	Carrying amount before impairment	Impairment	Residual carrying amount
Loans	0.3	0.0	0.3
Other financial assets	29.0	– 1.5	27.5
Trade receivables	37.1	– 14.6	22.5
Cash and cash equivalents	285.4	–	285.4
Total	**351.8**	**– 16.1**	**335.7**

The table below shows the maturity structure of the financial assets past due but not impaired as at 31 December 2017.

T115

Not impaired financial assets

€ million	Carrying amount	Of which past due as of end of reporting period but not impaired		
classes of financial instruments 31.12.2017		< 90 days	90–180 days	>180 days
Trade receivables	5.4	5.1	0.1	0.2
Other financial assets	0.9	0.7	0.1	0.1
Total	**6.3**	**5.8**	**0.2**	**0.3**

In addition to standardised allowances, within the LEG Group there are also general valuation allowances. Until 31 December 2017, these allowance took place in line with the length of time the receivables were past due according to the following impairment rates:

T116

Impairment rates for rent receivables – IAS 39

Age of rent receivable / overdue period (days)	Status of lease	Impairment losses in %
0 to 60	aktive	–
61 to 90	aktive	25.0
91 to 120	aktive	50.0
121 to 180	aktive	75.0
more than 180	aktive	100.0
0 to 60	past	–
more than 60	past	100.0

As a result of the first-time application of IFRS 9 as of 1 January 2018, the new expected credit loss model takes potential impairment into account at initial recognition of a receivable. To calculate the expected credit losses for trade receivables, LEG uses the simplified approach in accordance with IFRS 9. Thus lifetime expected credit losses are calculated for all trade receivables. In calculating the impairment rates for rent receivables, location-specific risk profiles are also taken into account within the individual past due ranges. This includes both the historical default rate for outstanding rent receivables and an assessment of the future development of a location as forward looking element.

Locations are divided into three categories (good, medium, poor), giving rise to the following impairment matrix in accordance with IFRS 9 as at 1 January 2018:

T117

Impairment rates for rent receivables – IFRS 9

Age of rent receivable / overdue period (days)	Status of lease	Impairment rate in %		
		Good location	Medium location	Poor location
0 to 60	aktive	–	25.0	45.0
61 to 90	aktive	8.0	35.0	55.0
91 to 120	aktive	10.0	37.0	57.0
121 to 180	aktive	13.0	40.0	60.0
more than 180	aktive	18.0	45.0	65.0
0 to 60	past	43.0	70.0	90.0
more than 60	past	60.0	87.0	100.0

The gross receivables are split by overdue ranges as well as location-specific risk parameters and comprise the rent receivables after netting with current tenant balances. With respect to the impairment rates, net rent receivables as at 31 December 2018 are as follows:

T118

Impairment rates for rent receivables – IFRS 9

Age of rent receivable / overdue period (days)	Status of lease	Gross receivables			Impairment in %	Net receivables 31.12.2018
		Good location	Medium location	Poor location		
0 to 60	aktive	0.3	1.1	3.9	2.0	3.3
61 to 90	aktive	–	0.2	0.6	0.4	0.4
91 to 120	aktive	–	0.2	0.6	0.4	0.4
121 to 180	aktive	0.1	0.2	0.8	0.5	0.6
more than 180	aktive	0.2	0.6	2.2	1.8	1.2
0 to 60	past	–	0,2	0.9	1.0	0.1
more than 60	past	0.4	2.3	8.3	10.5	0.5
		1.0	**4.8**	**17.3**	**16.6**	**6.5**

For receivables from not yet invoiced operating costs and rent receivables not yet due impairment of 12.4 % was taken for the first time in the year under review. The expected credit loss has been estimated on the basis of the historical loss rates of all items posted as due.

Rent receivables and receivables from ancillary costs are derecognised if fair assessment states that realizability has become non-existent.

The first-time application of the expected credit loss model as at 1 January 2018 will therefore increase loss allowances by EUR 1.9 million, reported directly in equity (revenue reserves).

T119

Reconciliation of impairments

€ million	2018
Impairments in accordance with IAS 39 as of 31.12.2017	**16.0**
thereof from generalised individual impairments	**13.7**
Opening balance adjusted via cumulated reserves	1.9
Impairments in accordance with IAS 39 as of 01.01.2018	**17.9**
thereof from generalised individual impairments	**15.6**
Increase of impairments recognised in profit or loss in the financial year	15.1
Decrease of impairments recognised in profit or loss in the financial year	– 14.5
Impairments in accordance with IFRS 9 as of 31.12.2018	**18.5**

Imparment losses broken down are as follows in the reporting year 2018 and in the comparable period:

T120

Impairment losses 2018

€ million	As of 01.01.2018	Change remeasurement	Addition	Utilisation	As of 31.12.2018
Trade receivables	14.5	1.9	15.1	– 13.4	18.1
Other financial assets	1.5	–	–	– 1.1	0.4
Total	**16.0**	**1.9**	**15.1**	**– 14.5**	**18.5**

T121

Impairment losses 2017

€ million	As of 01.01.2017	Change remeasurement	Addition	Utilisation	As of 31.12.2017
Trade receivables	14.0	–	10.0	9.5	14.5
Other financial assets	1.5	–	0.8	0.8	1.5
Total	**15.5**	**–**	**10.8**	**– 10.3**	**16.0**

c) Liquidity risks

The LEG Group defines liquidity risk as the risk that the Group will be unable to meet its own payment obligations at a contractually agreed date.

To ensure that this is not the case, the LEG Group's liquidity requirements are monitored and planned on an ongoing basis by the Corporate Finance and Treasury unit. Sufficient cash and cash equivalents to meet the Group's obligations for a defined period are available at all times. The LEG Group currently has credit facilities and bank overdrafts in the amount of around EUR 200 million (previous year: EUR 50 million).

The following table shows the contractually agreed (undiscounted) interest and principal payments for the LEG Group's primary financial liabilities and its derivative financial instruments with negative fair value. The maturities are based on the contractually agreed fixed interest periods for the respective financial liabilities.

T122

Type of liabilities on 31.12.2018

€ million	**Carrying amount**	Remaining terms		
		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	4,575.0	486.7	1,012.9	3,607.8
Financing liabilities from lease financing	23.1	5.7	11.1	6.3
Interest rate derivatives	20.8	7.6	17.7	– 3.8
Embedded derivatives	262.2	–	–	–
Liabilities to employees	10.1	9.4	–	0.7
Liabilities from operating costs	0.6	0.6	–	–
Rent and lease liabilities	21.0	21.0	–	–
Liabilities from shareholder loans	0.6	0.6	–	–
Trade payables	101.1	93.8	7.3	0.0
Others	61.8	6.5	10.9	44.4
Total	**5,076.3**	**631.9**	**1,059.9**	**3,655.4**

The embedded derivatives give rise only to indirect cash outflows over the term of the convertible bond. The cash outflows are included in the remaining terms of financial liabilities from loan liabilities and are reported there.

Together with the acquisition financing and refinancing, this led to an increase and shift in the remaining terms of financial liabilities from loan liabilities.

T123

Type of liabilities on 31.12.2017

€ million	Carrying amount	Remaining terms		
		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	4,273.9	482.8	873.1	3,471.8
Financing liabilities from lease financing	25.7	5.7	12.5	7.5[1]
Interest rate derivatives	32.2	11.3	23.8	– 3.1
Embedded derivatives	288.7	–	–	–
Liabilities to employees	10.9	10.1	–	0.8
Liabilities from operating costs	0.9	0.9	–	–
Rent and lease liabilities	20.6	20.6	–	–
Liabilities from shareholder loans	0.5	0.5	–	–
Trade payables	89.2	85.2	4.0	0.0
Others	62.7	7.2	8.9	46.6
Total	**4,805.3**	**624.3**	**922.3**	**3,523.6**

[1] The prior period amount was adjusted.

All instruments for which payments were contractually agreed as at the end of the reporting period are included. Forecast figures for future new liabilities are not included. Floating-rate interest payments for financial instruments are calculated using the most recent interest rates prior to the end of the reporting period. Financial liabilities that are repayable at any time are always allocated to the earliest repayment date.

Some of the LEG Group's loan agreements contain financial covenants. In the event of a failure to comply with the agreed covenants, the LEG Group generally has the opportunity to resolve the situation; however, certain cases of non-compliance can result in the bank having the right to terminate the loan agreement with immediate effect. In addition, some agreements provide the bank with the possibility of increasing interest and principal payments or demanding further security for compliance with the covenants in the event of non-compliance. In any case, a long-term failure to comply with the agreed covenants means that the financing bank is entitled to terminate the respective agreement. In connection with the first-time issue of a bond in January 2017, covenants were agreed which can lead to termination rights in the case of non-compliance. Compliance with covenants is monitored on an ongoing basis. There were no violations of the agreed covenants in the 2018 financial year.

d) Market risks

The LEG Group is subject to significant interest rate risks on account of its business activities. Interest rate risk results, in particular, from floating-rate liabilities to banks. In order to limit interest rate risk, the LEG Group generally enters into fixed-income loans or floating-rate loans, sometimes in connection with interest payer swaps. Around 91.3 % of financial liabilities are hedged in this way.

Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The Treasury policy prohibits the use of derivatives for speculative purposes.

The Group had the following derivative financial instruments as at 31 December 2018::

T124

Derivatives 2018

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivate – HFT – Liabilities	– 262.2	–
thereof from interest rate swaps	–	–
thereof embedded derivatives	– 262.2	–
Hedged derivatives	– 20.8	–

The Group had the following derivative financial instruments as at 31 December 2017:

T125

Derivatives 2017

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	–	–
thereof from interest rate swapss	–	–
Derivate – HFT – Liabilities	– 289.7	–
thereof from interest rate swaps	– 1.0	–
thereof embedded derivatives	– 288.7	–
Hedged derivatives	– 31.0	–

The derivatives entered into by the LEG Group are used as hedging instruments in accordance with IAS 9 if they meet the conditions for hedge accounting. The cash flows from hedged items in cash flow hedge accounting will be received between 2018 and 2030 and will be recognised in profit or loss at the same time.

The following table shows the amount recognised directly in other comprehensive income in the period under review or reversed against interest expenses. This corresponds to the effective portion of the change in fair value:

T126

Equity implication

€ million	**2018**	2017
Operating balance as of 01.01.	**– 28.7**	**– 51.9**
Recognised in equity in reporting period	– 12.2	1.0
Reserved from equity to statement of comprehensive inome	23.5	22.2
Closing balance as of 31.12.	**– 17.4**	**– 28.7**

The effects of accounting for interest rate swaps on the net assets, financial position and results of operations of the Group are as follows:

T127

Effects from interest rate swap accounting

€ million	2018
Hedging ratio	1:1
Weighted average interest rate in %	1.1
Change in fair value of outstanding hedging instruments	– 5.7
Change in the value of the underlying transaction	5.5
Notional amount of hedging instruments as of 31.12.2018	553.3
thereof due < 1 year	5.4
thereof due 1 to 5 years	170.5
thereof due > 5 years	377.4

Sensitivities:
In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses to determine the impact that a change in market interest rates would have on the interest income and expense, trading gains and losses and the equity of the LEG Group as at the end of the reporting period.

The effects on the LEG Group's equity and statement of comprehensive income are analysed using a +/– 50 bp parallel shift in the euro yield curve in the sensitivity analysis. The cash flow effects from the shift in the yield curve relate solely to interest expense and income for the next reporting period.

Based on the financial instruments held or issued by the LEG Group as at the end of the reporting period, a hypothetical change in the applicable interest rates for the respective instruments as quantified using sensitivity analysis would have had the following effects (before taxes) as at the end of the reporting period:

T128

Financial instruments 31.12.2018

	Equity effect		Comprehensive income	
€ million	+ 50 BP	– 50 BP	+ 50 BP	– 50 BP
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	– 2.1	2.1
Interest rate derivatives	20.2	– 19.9	–	–
Embedded derivatives	–	–	– 18.3	14.5

T129

Finanzinstrumente am 31.12.2017

	Equity effect		Comprehensive income	
€ million	+ 50 BP	– 50 BP	+ 50 BP	– 50 BP
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	– 1.4	1.4
Interest rate derivatives	21.0	– 20.6	0.4	– 0.4
Embedded derivatives	–	–	– 22.0	18.0

Embedded derivatives are subject to both interest rate risk and share price risk. Had the market price for the full instrument been 5 % higher (lower) at the end of the reporting period as a result of a change in the price of LEG Immobilien AG shares, with the other parameters for the company remaining unchanged, the fair value of the embedded derivatives would have been EUR 45.4 million higher (lower).

e) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T130

Financial assets € million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts,which are not netted in the balancesheet		
				Financial instruments	Received cash deposits	Net amount
31.12.2018						
Inventories in progress	250.9	–246.4	4.5	–	–	4.5
Cash and cash equivalents	233.6	–	233.6	2.1	–	235.7
Total	**484.5**	**–246.4**	**238.1**	**2.1**	**–**	**240.2**
31.12.2017						
Inventories in progress	244.4	–233.1	11.3	–	–	11.3
Cash and cash equivalents	285.4	–	285.4	5.4	–	290.8
Total	**529.8**	**–233.1**	**296.7**	**5.4**	**–**	**302.1**

The following financial liabilities are subject to offsetting:

T131

Financing liabilities € million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts,which are not netted in the balancesheet		
				Financial instruments	Received cash deposits	Net amount
31.12.2018						
Advanced payments received	–284.8	246.4	–38.4	–	–	–38.4
Financing liabilities from real estate financing	–4,575.0	–	–4,575.0	2.1	–	–4,572.9
Total	**–4,859.8**	**246.4**	**–4,613.4**	**2.1**	–	**–4,611.3**
31.12.2017						
Advanced payments received	–272.2	233.1	–39.1	–	–	–39.1
Financing liabilities from real estate financing	–4,273.9	–	–4,273.9	5.4	–	–4,268.5
Total	**–4,546.1**	**233.1**	**–4,313.0**	**5.4**	**–**	**–4,307.6**

The contractually agreed terms and conditions of banks for liens give rise to a claim to offset loan utilisation against the credit balances of the individual companies.

4| Number of employees

The average number of employees in the LEG Group developed as follows as against the previous year:

T132

Average number of employees

	2018		2017	
	Average number of employees	Employee capacity (FTE)	Average number of employees	Employee capacity (FTE)
Operations	717	630	699	612
Management	178	159	176	158
Special entities	419	393	371	368
Total	**1,314**	**1,182**	**1,246**	**1,138**

5| Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T133

Total auditor's fees

€ million	2018	2017
Audits of financial statements	1.3	1.2
Other audit services	0.1	0.2
Other services	0.2	0.0
Total fee	**1.6**	**1.4**

The audit services primarily include fees for the audit of the consolidated financial statements and the legally prescribed audits of LEG Immobilien AG and the subsidiaries included in the consolidated financial statements. The fees for other audit services relate mainly to the audit of the social charter and the audit review of the Sustainability Report. Other services include the examination of finance information and information on non-financial reporting for EUR 0.2 million.

6| IFRS 2 programmes

The agreements for members of the Management Board provide for a long-term incentive programme to be offered for each financial year. The programme is designed for a four-year period and divided into three performance periods (until the end of the first, second and third financial year following the relevant financial year). The amount of LTI remuneration is dependent on the achievement of certain performance targets. The performance targets in question are total shareholder return and the development of LEG's share price compared to the relevant EPRA Germany Index.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. On the basis of an assessment of the Management Board on the attainment of 2015 to 2019 performance hurdles, staff costs of EUR 1.7 million (previous year: EUR 1.4 million) were recognised as at 31 December 2018. The provision for long-term incentive plans amounted to EUR 2.6 million as at 31 December 2018 (previous year: EUR 2.0 million).

A target level of 48 % was achieved for LTI 2019 and of 58.3 % for LTI 2018 (LTI 2017: 81 %; LTI 2006: 92.6 %; LTI 2015: 100 %). Details on Management Board agreements can also be found in the remuneration report.

The total intrinsic value of liabilities at the end of the reporting period for which the counterparty's right to receive cash and cash equivalents or other assets was vested as at the end of the reporting period was EUR 1,095 thousand as at 31 December 2018 (previous year: EUR 1,018 thousand).

7| Related party disclosures

Related parties are defined as companies and persons that have the ability to control the LEG Group or exercise significant influence over its financial and business policy. The existing control relationships were taken into account when determining the significant influence that related parties can exercise over the LEG Group's financial and business policy.

Related persons

The related persons of LEG Immo include the Management Board and the Supervisory Board of LEG Immobilien AG. The Management Board of LEG Immobilien AG and the Management Team at LEG NRW GmbH consist of the same persons.

Related companies

LEG Immo's related companies include all the subsidiaries and associates of the LEG Group and certain entities not included in consolidated financial statements.

The following table shows the receivables from and liabilities to related companies as at the end of the reporting period and expenses and income involving related companies for the financial year:

T134

Receivables from and liabilities to related companies

€ million	31.12.2018	31.12.2017
Statement of financial positions		
Liabilities to shareholders	0.6	0.5

T135

Income from and expenses for related companies

€ million	2018	2017
Statement of comprehensive income		
Income from associates	0.2	0.4
Income from equity investments	2.6	3.2

a) Related company disclosures

Related companies controlled by LEG Immo or which it significantly influences are included in the consolidated financial statements. Intragroup transactions under existing service and management agreements between the companies are eliminated as part of consolidation.

There was no significant exchange of goods and services with the other unconsolidated subsidiaries or associates.

b) Related person disclosures

Total remuneration of the Management Board is shown in the table below:

T136

Compensation package of the Management Board

€ thousand	2018	2017
Fixed remuneration	1,521	1,338
Ancillary benefits	87	87
Total fixed benefits	**1,608**	**1,425**
Short-Term-Incentive-programme (STI)	954	887
Long-Term-Incentive-Programme (LTI)	486	594[1]
Total variable benefits	**1,440**	**1,481**
Total	**3,048**	**2,906**

[1] Prior period amount was adjusted and contains only LTI 2018.

The basis for calculating the STI is the achievement of the respective consolidated IFRS business plan. The STI consists of an annual payment measured on the basis of the following four targets: net cold rent, net rental and lease income, adjusted EBITDA and funds from operations I per share. The first three targets each account for 20 % and the final target for 40 % of the STI.

No loans or advances were granted or extended to the members of the Management Board in the 2018 financial year.

Total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.7 million in 2018 (2017: EUR 0.6 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2018 financial year.

Recognised expenses for the remuneration of members of the Management Board and Supervisory Board in accordance with IAS 24.17 can be summarised as follows:

T137

Benefits to the Management and Supervisory Board

€ thousand	2018	2017
Current payable benefits	3,395	3,026
Benefits after termination of the employment	28	31
Other long-term payable benefits	–	–
Benefits in cause of the termination of employment	736	–
Share-based payment	750	1,392
Total	**4,909**	**4,449**

Further information can be found in the remuneration report, which forms part of the management report.

Termination benefits

Holger Hentschel’s mandate as member of LEG Immobilien AG Management Board was ended by mutual arrangement as of 30 September 2018. On the basis of the employment agreement which was due to run until the end of December 2019, Holger Hentschel receives a severance payment of EUR 0.3 million in lieu of the fixed remuneration. Claims to additional benefits have been settled at an amount of EUR 39 thousand. LEG will pay his company pension until 31 December 2019. The pension cost amounts to EUR 12 thousand. Target achievement for the STI for the period from October 2018 to December 2019 has been set at an amount of EUR 0.4 million for 100% achievement. In the context of the severance agreement the LTI claims of EUR 937 thousand were vested early and remain classified under IFRS 2. The remunerated non-compete provision for Mr. Hentschel of EUR 108 thousand for the months of October to December 2018 is part of current payable benefits.

8 | Guarantees and contingent liabilities

The LEG Group has the following contingent liabilities:

T138

Contingent liabilities

€ million	31.12.2018	31.12.2017
Land charges	3,256.0	3,097.3
Letters of comfort	1.5	1.5[1]
Warranty agreements	462.0	279.4[1]

[1] The prior period amount was adjusted.

The warranty agreements relate exclusively to letters of comfort (EUR 277 million) and guarantees (EUR 185 million) to external companies and banks. The high increase in warranty agreements results primarily from LEG Immobilien AG granting three guarantees to banks for agreements on working capital facilities of a subsidiary (principle debtor).

All collateral is due to the credit agreements concluded between the subsidiaries and various banks and was provided to promote willingness to lend on the part of capital providers.

For all the stated contingent liabilities the risk of utilization is assessed as unlikely.

9 | Other financial commitments

The Group's other financial commitments are composed as follows:

T139

Other financial commitments

€ million	**31.12.2018**	31.12.2017
Future payments under operating leases	81.1	79.9
Factory management obligations	2.8	1.9
Purchase of energy	25.0	12.0
Purchase obligations	57.9	35.1

Future payments under operating leases result, in particular, from obligations for land with third-party heritable building rights in the amount of EUR 67.1 million (2017: EUR 68.4 million) and rental obligations in the amount of EUR 8.3 million (2017: EUR 9.5 million).

Future payment obligations under non-cancellable operating leases are broken down as follows:

T140

Minimum lease payments

	Remaining term			**Total**
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2018	**6.6**	**13.9**	**60.6**	**81.1**
31.12.2017	4.5	13.5	61.9	79.9

The cost of minimum lease payments was EUR 5.0 million in the 2018 financial year (2017: EUR 4.4 million).

T141

Factory management obligations

	Remaining term			**Total**
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2018	**0.7**	**2.1**	**–**	**2.8**
31.12.2017	0.6	1.3	–	1.9

10 | The Management Board

LEG Immobilien AG is represented by the Management Board, which consists of the following members:

THOMAS HEGEL,
CEO of LEG Immobilien AG,
Erftstadt

ECKHARD SCHULTZ,
CFO of LEG Immobilien AG,
Neuss

HOLGER HENTSCHEL,
COO of LEG Immobilien AG,
Erkrath
– until 30. September 2018

LARS VON LACKUM,
CDO of LEG Immobilien AG,
Cologne
– from 1. January 2019

Registered office of the company:
Hans-Böckler-Strasse 38
40476 Dusseldorf
Germany
Commercial Register: HRB 69386
Dusseldorf

11 | Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members.

The following members were elected by the shareholders' meeting:

MICHAEL ZIMMER,
– Chairman –; businessman,
Pulheim

NATALIE C. HAYDAY,
Investment consultant, Obermark GmbH,
Kronberg im Taunus,
since 02/2018
Chief Executive Officer of 7Square GmbH,
Frankfurt

STEFAN JÜTTE,
Deputy Chairman, businessman, Bonn

DR JOHANNES LUDEWIG,
Business consultant, Berlin

DR JOCHEN SCHARPE,
Managing Partner, AMCI GmbH,
Munich

DR CLAUS NOLTING,
Senior Advisor at Lone Star Germany,
Frankfurt

12 | Events after the end of the reporting period

As of 1 January 2019, the Supervisory Board appointed Lars von Lackum as new member of the Management Board.

There were no other material events with particular importance for the Group after the end of the financial year.

Declaration of Compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board comply with the recommendations of the German Corporate Governance Code as presented in the management report. The declaration of compliance has been made permanently available to shareholders on the company's website at **https://www.leg-wohnen.de/fileadmin/user_upload/Assets/PDFs/Unternehmen/Investor_Relations/Corporate_Governance/Entsprechenserklaerung_161-AktG-Nov2018.pdf**

Dusseldorf, 6 March 2019

LEG Immobilien AG

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
LARS VON LACKUM

List of shareholdings

The following table shows an overview of the basis of consolidation of the LEG Group:

T142

Consolidated companies		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Immobilien AG, Dusseldorf		Ober–gesellschaft		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	109,451	– 5
LEG Holding GmbH, Dusseldorf	1)	100.00	880,734	0
LEG NRW GmbH, Dusseldorf	2)	99.98	1,221,928	17,090
LEG Wohnen GmbH, Dusseldorf	2)	100.00	559,031	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0[3]
Solis GmbH, Dusseldorf	1)	94.90	103,833	0
Rheinweg Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	86,392	0
Luna Immobilienbeteiligungs GmbH, Dusseldorf	1)	94.90	10,196	0
Rheinweg Zweite Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	78,525	0
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0[3]
Noah Asset 4 GmbH, Dusseldorf	2)	94.90	2,616	508[2]
LEG Wohnen Bocholt GmbH, Dusseldorf	2)	100.00	25	0
LEG Bauen und Wohnen GmbH, Dusseldorf	2)	100.00	2,165	0
LCS Consulting und Service GmbH, Dusseldorf	1)	100.00	2,556	0
LEG Consult GmbH, Dusseldorf	3)	100.00	302	0
GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH, Münster	2)	94.86	74,582	0
GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0
GeWo Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Münster	2)	100.00	71	– 6
LEG Rheinrefugium Köln GmbH, Dusseldorf	2)	94.00	34	0
Calor Caree GmbH, Dusseldorf	2)	94.00	25	0
LEG Beteiligungsverwaltungsgesellschaft mbH, Dusseldorf	1)	100.00	13,745	0
LEG Grundbesitzerwerb 1 GmbH & Co. KG, Dusseldorf	1)	100.00	– 1,216	– 380
LEG Grundbesitzerwerb 2 GmbH & Co. KG, Dusseldorf	1)	100.00	– 208	– 45
LEG Grundbesitzerwerb 3 GmbH & Co. KG, Dusseldorf	1)	100.00	7	– 7

Consolidated companies		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Grundstücksverwaltung GmbH, Dusseldorf	2)	100.00	25,863	0
Dusseldorfer Ton- und Ziegelwerke AG, Dusseldorf	2)	100.00	10,455	0
Germany Property Dusseldorf GmbH, Dusseldorf	2)	94.90	4,881	0
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0[3]
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	345	0[3]
LEG Wohnen Service GmbH, Dusseldorf	1)	100.00	50	0[3]
LEG Solution GmbH, Dusseldorf	3)	100.00	66,718	0
LEG Wohnviertel Dyk GmbH, Dusseldorf	2)	100.00	167	103
LEG Standort- und Projektentwicklung Köln GmbH, Dusseldorf	2)	100.00	13,753	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Liebenscheid	5)	94.86	4,157	2,936
Grundstücksentwicklungsgesellschaft Ennigerloh Süd-Ost mbH, Köln	2)	94.90	– 7,625	– 113
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0[3]
Ravensberger Heimstätten Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Gemeinnützige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Höxter	2)	100.00	11,909	0
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0[3]
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0
Wohnungsgesellschaft Münsterland mbH, Münster	2)	100.00	164,978	0[3]
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Münster	2)	100.00	114	0
LEG Erste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Zweite Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Dritte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Vierte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Fünfte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Sechste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0

T142

Consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Siebte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]
LEG Achte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Neunte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
SW Westfalen Invest GmbH, Dusseldorf	2)	94.90	78,957	0[3]
LEG Recklinghausen 1 GmbH, Dusseldorf	2)	94.90	21,796	520
LEG Recklinghausen 2 GmbH, Dusseldorf	2)	94.90	10,638	544
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
EnergieServicePlus GmbH, Dusseldorf	4)	51.00	8,510	4,845[3]
TSP-TechnikServicePlus GmbH, Dusseldorf	4)	51.00	827	0[3]
VitalServicePlus GmbH, Dusseldorf	4)	100.00	25	0
Grundstücksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	3,058	0
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Dusseldorf	2)	94.90	31,098	3.224[2,3]
AWM Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	2.318	0
Vitus Service GmbH, Dusseldorf	1)	100.00	29	0
BRE/GEWG GmbH, Dusseldorf	1)	100.00	24,169	0
Gemeinnützige Eisenbahn Wohnungsbaugesellschaft mbH, Dusseldorf	2)	94.90	6,496	0

[1] Unless indicated otherwise, these figures show the equity and result as taken from the, not yet adopted, separate HGB financial statements as at 31 December 2018. A zero result is shown in the event of there being a profit transfer agreement in place.
[2] Earnings before loss absorption and after profit transfer
[3] Exemption in accordance with > section 264(3) HGB

Activities of subsidiaries:

1) Performance of services and management of equity investments within the LEG Group
2) Property management and location development
3) Performance of services for third parties
4) Performance of housing industry services
5) Electricity and heat generation

T143

Non-consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
Entwicklungsgesellschaft Rhein-Pfalz GmbH, Mainz	1)	100.00	25	0
Entwicklungsgesellschaft Rhein-Pfalz GmbH & Co. KG, Mainz	3)	100.00	1,295	– 23
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Dusseldorf	1)	100.00	25	20
LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	2)	100.00	99	– 1

[1] These figures are the separate HGB equity and results as at 31 December 2017.

Activities of the companies not included in consolidation:

1) Property management
2) Shell company
3) Performance of services for third parties

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Associates accounted for using the equity method

	Share of capital %	Equity[1] € thousand	Result[1] € thousand
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	20,924	558
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3,617	21

Consolidated financial statement/annex I

T145

Consolidated statement of changes in assets 2018

	Costs									Cumulative depreciation, amortisation and write-downs/ fair values					Carrying amounts	
€ million	As of 01.01.2018	Additions from con-solidated companies	Addi-tions	Dis-posals	Reclassi-fication	Additions from investment properties	Disposal to investment properties	Disposal to assets held for sale	**As of 31.12.2018**	As of 01.01.2018	Additions from con-solidated companies	Addi-tions	Dis-posals	**As of 31.12.2018**	**As of 31.12.2018**	As of 31.12.2017
Property, plant and equipment	**125.9**	**–**	**8.4**	**–1.4**	**–**	**1.5**	**–1.7**	**–**	**132.7**	**–62.4**	**–**	**–9.1**	**1.3**	**–70.2**	**62.5**	**63.5**
Land, land rights and buildings	27.7	–	0.8	–	–	1.5	–1.7	–	28.3	–5.1	–	–0.6	–	–5.7	22.6	22.6
Technical equipment and machinery	47.8	–	5.4	–0.1	–	–	–	–	53.1	–27.3	–	–3.8	0.1	–31.0	22.1	20.5
Other equipment, operating and office equipment	9.2	–	0.2	–	–	–	–	–	9.4	–7.8	–	–0.4	–	–8.2	1.2	1.4
Finance leases	41.2	–	2.0	–1.3	–	–	–	–	41.9	–22.2	–	–4.3	1.2	–25.3	16.6	19.0
Intangible assets	**99.5**	**–**	**0.5**	**–**	**–**	**–**	**–**	**–**	**100.0**	**–14.1**	**–**	**–0.6**	**–**	**–14.7**	**85.3**	**85.4**
Other intangible assets	14.6	–	0.5	–	–	–	–	–	15.1	–14.1	–	–0.6	–	–14.7	0.4	0.5
Goodwill	84.9	–	–	–	–	–	–	–	84.9	–	–	–	–	–	84.9	84.9
Total	**225.4**	**–**	**8.9**	**–1.4**	**–**	**1.5**	**–1.7**	**–**	**232.7**	**–76.5**	**–**	**–9.7**	**1.3**	**–84.9**	**147.8**	**148.9**

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Consolidated statement of changes in assets 2017

€ million	Costs									Cumulative depreciation, amortisation and write-downs/ fair values					Carrying amounts	
	As of 01.01.2017	Additions from consolidated companies	Additions	Disposals	Reclassification	Additions from investment properties	Disposal to investment properties	Disposal to assets held for sale	As of 31.12.2017	As of 01.01.2017	Additions from consolidated companies	Additions	Disposals	As of 31.12.2017	As of 31.12.2017	As of 31.12.2016
Property, plant and equipment	**119.9**	**0.7**	**7.9**	**–3.4**	**0.8**	**2.1**	**–2.1**	**–**	**125.9**	**–56.7**	**–0.1**	**–9.0**	**3.4**	**–62.4**	**63.5**	**63.2**
Land, land rights and buildings	27.6	–	0.1	–	–	2.1	–2.1	–	27.7	–4.5	–	–0.6	–	–5.1	22.6	23.1
Technical equipment and machinery	42.6	0.6	5.0	–1.1	0.7	–	–	–	47.8	–24.9	–0.1	–3.4	1.1	–27.3	20.5	17.7
Other equipment, operating and office equipment	8.8	0.1	0.5	–0.2	–	–	–	–	9.2	–7.4	–	–0.6	0.2	–7.8	1.4	1.4
Finance leases	40.9	–	2.3	–2.1	0.1	–	–	–	41.2	–19.9	–	–4.4	2.1	–22.2	19.0	21.0
Intangible assets	**90.9**	**9.0**	**0.4**	**–**	**–0.8**	**–**	**–**	**–**	**99.5**	**–13.9**	**–**	**–0.2**	**–**	**–14.1**	**85.4**	**77.0**
Other intangible assets	15.0	–	0.4	–	–0.8	–	–	–	14.6	–13.9	–	–0.2	–	–14.1	0.5	1.1
Goodwill	75.9	9.0	–	–	–	–	–	–	84.9	–	–	–	–	–	84.9	75.9
Total	**210.8**	**9.7**	**8.3**	**–3.4**	**–**	**2.1**	**–2.1**	**–**	**225.4**	**–70.6**	**–0,1**	**–9.2**	**3.4**	**–76.5**	**148.9**	**140.2**

Consolidated statement of changes in provisions /annex II

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Consolidated statement of changes in provisions 2018

€ million	As of 01.01.2018	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	Discounting	**As of 31.12.2018**	thereof Non-current	thereof Current
Staff provisions											
Staff provisions	1.0	–	–0.6	–	–	0.9	–	–	1.3	0.8	0.5
Other provisions	**21.3**	**–**	**–7.1**	**–1.3**	**–**	**8.0**	**0.1**	**–**	**21.0**	**3.7**	**17.3**
Provisions of lease properties	0.6	–	–	–0.2	–	–	–	–	0.4	0.3	0.1
Construction book provisions	2.8	–	–0.1	–0.1	–	0.5	–	–	3.1	0.4	2.7
Litigations risks	1.8	–	–0.5	–0.7	0.3	0.2	–	–	1.1	0.0	1.1
Other provisions	16.1	–	–6.5	–0.3	–0.3	7.3	0.1	–	16.4	3.0	13.4
Total	**22.3**	**–**	**–7.7**	**–1.3**	**–**	**8.9**	**0.1**	**–**	**22.3**	**4.5**	**17.8**

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Consolidated statement of changes in provisions 2017

€ million	As of 01.01.2017	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	Discounting	As of 31.12.2017	thereof Non-current	thereof Current
Staff provisions											
Staff provisions	1.2	–	–0.7	–	–	0.5	–	–	1.0	0.4	0.6
Other provisions	**26.6**	**0.1**	**–8.9**	**–1.6**	**–**	**5.1**	**–**	**–**	**21.3**	**9.0**	**12.3**
Provisions of lease properties	0.8	–	–	–0.2	–	–	–	–	0.6	0.4	0.2
Construction book provisions	4.0	–	–1.2	–	–	–	–	–	2.8	0.4	2.4
Litigations risks	1.3	–	–0.1	–0.2	0.1	0.7	–	–	1.8	0.1	1.7
Other provisions	20.5	0.1	–7.6	–1.2	–0.1	4.4	–	–	16.1	8.1	8.0
Total	**27.8**	**0.1**	**–9.6**	**–1.6**	**–**	**5.6**	**–**	**–**	**22.3**	**9.4**	**12.9**

Independent auditor's report

To LEG Immobilien AG, Dusseldorf

Report on the Audit of the consolidated financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of LEG Immobilien AG, Dusseldorf, 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 1 January to 31 December 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 LEG Immobilien AG for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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 § [Article] 315e Abs. [paragraph] 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 1 January to 31 December 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 audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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) point (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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of investment properties
2. Presentation and measurement of primary and derivative financial instruments

Our presentation of these key audit matters has been structured in each case as follows:t:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of investment properties

1.
In the consolidated financial statements of LEG Immobilien AG as of 31 December 2018 investment properties in the amount of EUR 9,460.7 million are reported. LEG exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realized when properties are sold, as well as unrealized changes in market value, are recognized at fair value through profit or loss. In the past financial year, EUR 800.9 million in unrealized changes in market value were recognized through profit or loss in the consolidated statement of comprehensive income.

When determining the fair value, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined using a company-internal measurement model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using the net asset value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values.

To the extent possible, LEG uses data directly observable on the market to determine fair value (sources include property market reports prepared by expert committees and public and subscriptions-based market databases). In addition, a valuation report is prepared by an independent appraiser and is used to verify the plausibility of internal calculations.

The measurement of investment properties is based on a large number of relevant parameters which are in general subject in some respects to uncertainties with regard to estimates and judgments. Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalization rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit because the measurement of investment properties is in general subject to substantial judgment and estimation uncertainties and there is the risk that the changes in fair value which are recognized through profit or loss do not fall within an appropriate range.

2.
As part of our audit, in collaboration with our specialists from our Valuation & Strategy department, we recorded the internal controls in place and assessed whether they were appropriate and effective, among other things. In addition, we assessed the measurement models used by LEG with respect to their compliance with IAS 40 in conjunction with IFRS 13, the homogeneity of the properties being valued, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m², planned maintenance per m²), the assumed vacancy rate and the discount and capitalization rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations.

As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the DCF method or on the basis of the standardized German income approach [Ertragswertverfahren] pursuant to the German Property Valuation Regulation [Immobilienwertermittlungsverordnung; ImmoWertV)].

The valuation technique applied by the executive directors of LEG is appropriately designed and suitable for calculating fair values in accordance with IFRSs. The underlying assumptions reflect the current market parameters.

3.
Please refer to sections D1, D18, D.23, E1, F3 and F.4 of the notes for information on investment properties.

2. Presentation and measurement of primary and derivative financial instruments

1.
In the consolidated financial statements of LEG Immobilien AG as of 31 December 2018 financial liabilities in the amount of EUR 4,598.1 million (prior year EUR 4,299.6 million) are reported. The increase in the financial liabilities was primarily due to the issue of a registered bond with a nominal amount of EUR 130 million, payouts of further tranches of a promotional loan of the European Investment Bank of EUR 75 million, further new borrowings of EUR 337.7 million and amortization effects from the application of the effective interest rate method of EUR 14 million. This was offset by scheduled and unscheduled redemptions amounting to EUR 252.3 million.

The carrying amounts of the outstanding convertible bonds (basic debt component) amounted to EUR 667.2 million (prior year EUR 657.6 million) and the carrying amounts of the embedded derivatives were EUR 262.2 million (prior year EUR 288.7 million). The change over the prior year was due to the measurement of the convertible bond using the effective interest rate method. The year-on-year change of the embedded derivatives (in particular embedded conversion rights) resulted from purely valuation-related effects of EUR 26.5 million, reported as net income from the fair value measurement of derivatives.

An interest rate swap with a total volume of EUR 85.0 million was concluded during the financial year to hedge interest rate volatility arising from floating-rate loans. In connection with the refinancing and redemption of previous loans, the associated hedges were unwound. This led to the reversal through profit or loss of the fair value changes of interest rate derivatives recognized until that point in OCI, resulting in an expense of EUR 13.4 million which is included in interest expenses.

Financial liabilities are initially recognized at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. Subsequent measurement takes place at amortized cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are created.

The LEG Group uses derivative financial instruments to hedge interest rate risks incurred in financing its properties. Derivative financial instruments are measured at fair value. Changes in the fair value of derivatives are recognized through profit or loss if no hedging relationship in accordance with IFRS 9 exists. Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities.

The input parameters for valuation models used to determine the fair value of derivative financial instruments are the relevant market prices and interest rates observed on the balance sheet date and taken from recognized external sources.

The matters presented above were of particular significance for our audit due to the judgments involved in measuring and appropriately presenting financial instruments, particularly with respect to hedge accounting.

2.
We involved experts from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities, including the effects of the derivative financial instruments on equity and profit or loss. With their assistance, among other things we assessed the established internal control system.

New contracts recognized as financial liabilities were selected according to specific risk-oriented criteria and evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortized costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities. The outstanding convertible bonds were assessed in full with respect to recognition, measurement and presentation.

As part of our audit of the fair value of primary financial instruments, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis. We also took into account fair value measurement when determining the effectiveness of derivatives in hedge accounting. We assessed whether the documentation of hedge accounting complied with the requirements of IFRS 9.

We obtained bank confirmations to assess whether all financial liabilities and financial instruments were recognized in full.

The presentation of financial liabilities and derivative financial instruments by the executive directors of LEG is appropriate. In our view, the measurement method used and the underlying assumptions and valuation parameters are appropriate overall.

3.
Please refer to sections D14, D15, D.16, D.22, D.23, E11, F7, F.8 and I3 of the notes for information on primary and derivative financial instruments.

Other Information

Other Information
The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in a separate section of the group management report
- the separate non-financial group report pursuant to § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information –, with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit 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 audit 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 the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are 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 § 315e Abs. 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 the executive directors are 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, the executive directors are 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, the executive directors are 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, the executive directors are 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 audit 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 § 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 judgment and maintain professional skepticism 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 audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the 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 audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 audit 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 § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit 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 audit 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 the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit 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 by the annual general meeting on 17 May 2018. We were engaged by the supervisory board on 30 July 2018. We have been the group auditor of the LEG Immobilien AG, Dusseldorf, without interruption since the financial year 2008.

We declare that the audit 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 Thomas Kieper.

Dusseldorf, 6 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

THOMAS KIEPER (German Public Auditor)

PPA. MARTIN FLÜR (German Public Auditor)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the LEG Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the LEG Group, together with a description of the principal opportunities and risks associated with the expected development of the LEG Group."

Dusseldorf, 6 March 2019
LEG Immobilien AG, Dusseldorf
The Management Board

THOMAS HEGEL **ECKHARD SCHULTZ** **LARS VON LACKUM**

FURTHER INFORMATION

5

The management board

The members of the Management Board are as follows

THOMAS HEGEL
Chief Executive Officer (CEO)

Acquisitions
Corporate Communications
Law, Structure & Organisation
Human Resources
Executive and Supervisory Board Office
Inhouse Business Management
Asset and Property Management
Procurement/Technology
Rental and Operating Cost Management
Receivables Management
Commercial Management
District Management
Portfolio Integration
Technical Service

ECKHARD SCHULTZ
Chief Financial Officer (CFO)

Controlling & Risk Management
Corporate Finance & Treasury
Investor Relations & Strategic Business Analysis
Portfolio Management
Accounting
Tax

LARS VON LACKUM
Chief Digital Officer (CDO)

Corporate Development & Innovation Management
Organisation & Process Optimisation
IT & Digitalisation
Energy Services
Project Development

Separate financial statements of LEG Immobilien AG

As the managing holding company of the LEG Group, LEG Immobilien AG, based in Dusseldorf, performs controlling activities and administrative services for the LEG Group.

As at the balance sheet date of 31 December 2018, the separate entity company is a large corporation within the meaning of section 267 HGB (German Commercial Code). Since applying for a stock market listing in December 2012, LEG Immobilien AG has been considered a publicly traded company in accordance with section 264d HGB and is subject to section 267(3) HGB.

On entry in the commercial register on 11 January 2013, LEG Immobilien GmbH underwent a change of legal form and was renamed LEG Immobilien AG. LEG Immobilien AG went public on 1 February 2013 with the initial listing of its shares on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

LEG Immobilien AG and its direct and indirect subsidiaries are among the largest residential companies in North Rhine-Westphalia. The LEG Group held a portfolio of 135,236 units (residential and commercial) on 31 December 2018.

HGB annual financial statements for 2018

Net profit/income statement

The net loss for the 2018 financial year amounted to EUR 13.1 million (previous year: net profit of EUR 2,741.2 million). The net profit in the 2017 financial year primarily resulted from the disclosure of hidden reserves due to the non-cash contribution of LEG NRW to the LEG holding company in order to strengthen the equity basis of LEG Immobilien AG.

Based on the approved business planning, a net loss in the upper seven-digit range was anticipated for 2018.

The comparatively higher loss in the 2018 financial year is primarily due to increased legal and consulting costs and non-recurring effects in staff costs. The company's main expense items include Management Board salaries, costs for the supervisory committees and costs for Group management. These expenses are only partially offset by income from the oncharging of intragroup services.

Statement of financial positions

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Balance sheet separate financial statements

€ million	31.12.2018	31.12.2017	Change
Financial assets	4,748.6	4,747.8	0.8
Receivables	22.4	73.6	– 51.2
Cash and cash equivalents	0.2	3.1	– 2.9
Prepaid expenses	30.9	38.9	– 8.0
Total Assets	**4,802.1**	**4,863.4**	**– 61.3**
Equity	3,264.1	3,469.2	– 205.1
Provisions	66.9	65.9	1.0
Liabilities	1,464.9	1,322.1	142.8
Deferred tax liabilities	6.2	6.2	0.0
Total equity and liabilities	**4,802.1**	**4,863.4**	**– 61.3**

Financial assets increased by EUR 0.8 million to EUR 4,748.6 million (previous year: EUR 4,747.8 million). The change in financial assets is due to an addition to capital reserves at EnergieServicePlus GmbH.

The receivables predominantly consist of receivables from affiliated companies (EUR 19.9 million).

Prepaid expenses of EUR 30.9 million (previous year: EUR 38.9 million) essentially include a discount resulting from the difference between the fair value on issue and the liability for convertible bonds recognised at settlement amount.

The equity and liabilities side of the balance sheet comprises equity of EUR 3,264.1 million, liabilities of EUR 1,464.9 million, deferred tax liabilities of EUR 6.2 million and provisions of EUR 66.9 million.

As at 31 December 2018, the equity of LEG Immobilien AG consists of the subscribed capital of EUR 63.2 million, capital reserves of EUR 614.6 million, revenue reserves of EUR 2,359.4 million and net retained profits of EUR 226.9 million. By resolution of the Management Board, EUR 240.0 million was withdrawn from revenue reserves and appropriated to net retained profits for the dividend distribution and to cover the net loss.

As at 31 December 2018, liabilities in the amount of EUR 1,464.9 million comprised two convertible bonds totalling EUR 700.0 million, a corporate bond of EUR 500.0 million, additional financing of EUR 130.0 million, commercial paper financing (EUR 100 million), other liabilities (EUR 23.5 million), liabilities to affiliated companies (EUR 10.7 million) and trade payables (EUR 0.7 million).

As in the previous year, provisions primarily comprise two provisions for conversion rights in the amount of EUR 60.8 million.

Financial statements

The full HGB annual financial statements of LEG Immobilien AG, with an unqualified audit opinion from the auditor, are disclosed in the electronic Federal Gazette. They can also be requested from LEG Immobilien AG as a special print and are published on the website of LEG Immobilien AG.

Glossary

EBIT
Earnings **b**efore **I**nterest and **T**ax
Operating earnings
Consolidated net income before net finance costs and taxes.

EBITDA
Earnings **b**efore **I**nterest, **T**ax, **D**epreciation and **A**mortisation
Consolidated net income before net finance costs and taxes, depreciation on property, plant and equipment and amortisation of intangible assets; depreciation and amortisation also include impairment losses and reversals thereof.

adj. EBITDA
adjusted EBITDA
EBITDA adjusted for net income on the remeasurement of investment of investment properties, net income from the disposal of real estate inventory, net income from the disposal of investment properties, non-recurring project costs and other extraordinary and prior-period expenses and income.

FFO I
Funds **f**rom **O**perations **I**
Funds generated from operating activities LEG calculation: adj. EBITDA adjusted for cash interest expenses and income and cash taxes.

FFO II
Funds **f**rom **O**perations **II**
FFO I plus net income from the disposal of investment properties.

AFFO
Adjusted **FFO I**
FFO I adjusted for investments for capitalized expenditure measures.

EPRA
European **P**ublic **R**eal Estate **A**ssociation

EPRA vacancy rate
Vacancy rate as defined by **EPRA**
Expressed as a percentage being the estimated market rental value of vacant space divided by the estimated market rental value of the whole portfolio.

EPRA Earnings per Share
Net profit or loss for the period attributable to parent shareholders, adjusted for non-cash remeasurement effects of investment properties and derivatives, acquisition costs and aperiodic financing costs and income taxes, that are not classified as current income taxes.

EPRA-NAV
Net **A**sset **V**alue as defined by **EPRA**
Net asset value from a shareholder perspective assuming the long-term continuation of the company as a going concern. This value is calculated on the basis of equity which is controlled by the shareholders and eliminates the effects of the market measurement of derivative financial instruments and deferred taxes which correspond to investment properties, derivatives or subsidised loans.

Pro forma NAV
EPRA-NAV as described above adjusted for the effects of a simulated executed conversion of the 2014/2021 convertible.

EPRA-NNNAV
Triple Net **A**sset **V**alue as defined by **EPRA**
EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.

EPRA-Net Initial Yield
Net initial yield as defined by **EPRA**
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

EPRA cost ratio
The **cost ratio** is an indicator of the company's operating performance. Administrative and operating expenses are divided by gross rental income, adjusted for leasehold land interests and – unless marked otherwise – directly attributable vacancy costs.

LTV
Loan **t**o **V**alue
The ratio of net financial liabilities (not including EK 02 tax liabilities), less cash and cash equivalents to the sum of investment properties, assets held for sale and prepayments for investment properties.

CAPEX
Capital **Ex**penditure
Capitalised cost of modernisation and maintenance work.

Project costs
Project costs include expenses for projects that are largely non-recurring with a complex structure whose goals are to be met within the budget and time provided.

Tables and Figures

Table overview

Further Information

Figure overview

To the Shareholders

Group Management Report

Financial calendar

LEG Financial Calendar 2019

Release of Annual Report 2018	**11 March**
Release of Quarterly Statement Q1 as of 31 March 2019	**9 May**
Annual General Meeting, Dusseldorf	**29 May**
Release of Quarterly Report Q2 as of 30 June 2019	**9 August**
Release of Quarterly Statement Q3 as of 30 September 2019	**15 November**

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The annual report is also available in German.
In case of doubt, the German version takes precedence.

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