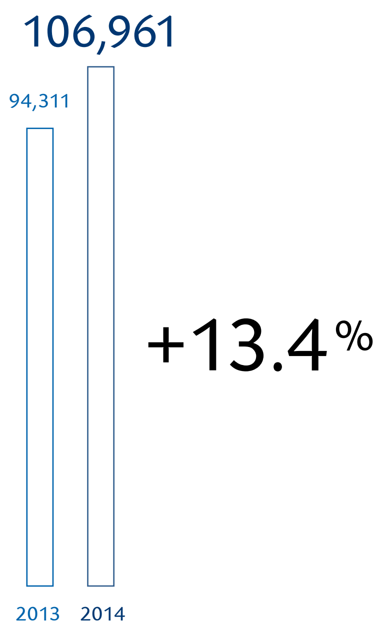
LEG
gewohnt gut.

GROW FOR IT!

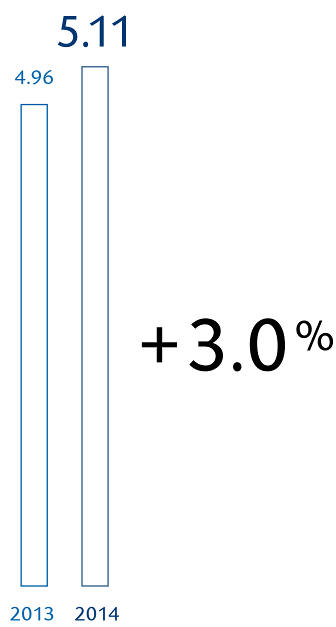
GROWTH FOR VALUE

ANNUAL REPORT 2014

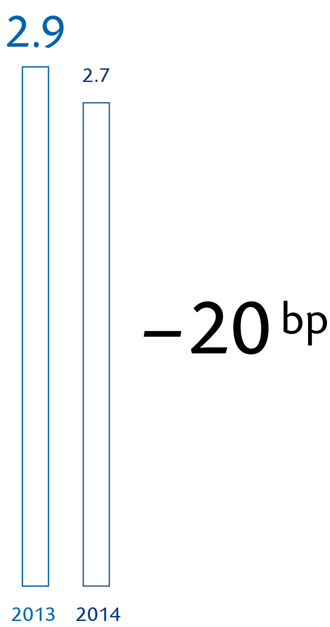
KEY FACTS 2014



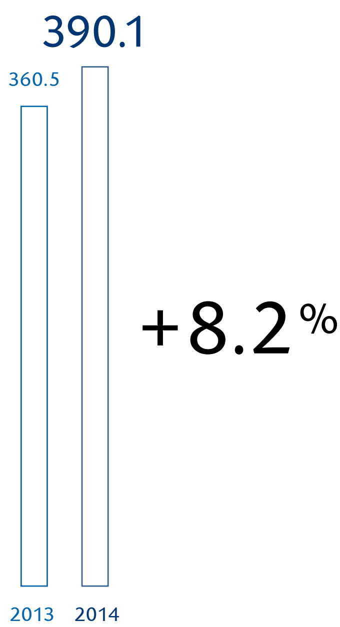
Number residential units



In-place rent on 31.12. (like-for-like) in €/sqm

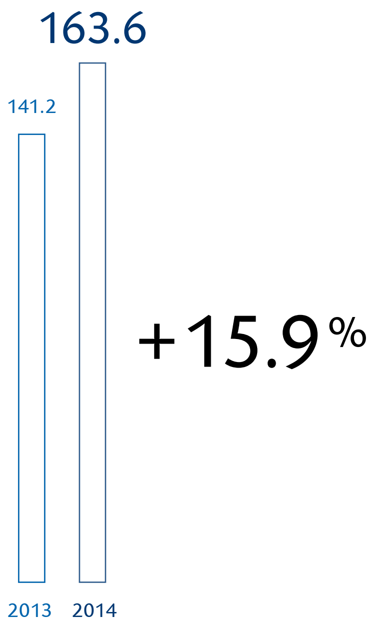


Vacancy rate on 31.12. (like-for-like) in %

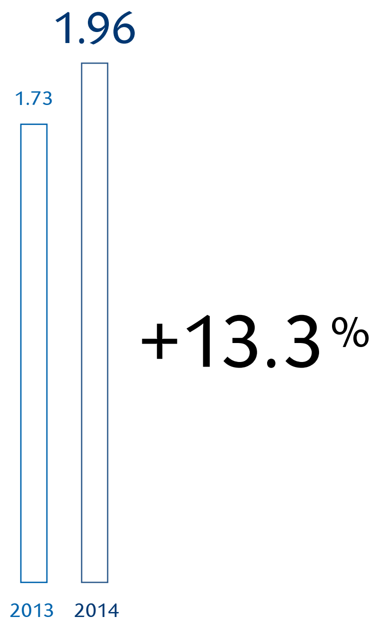


Rental income in € million

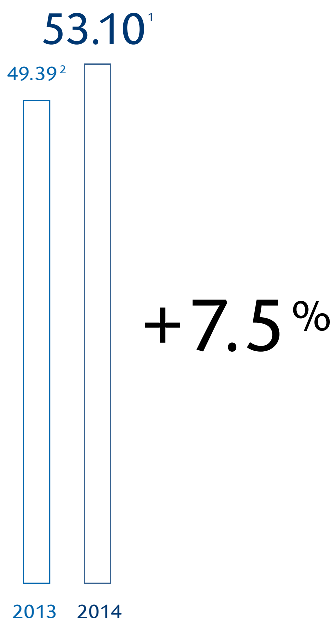
Key Facts 2014



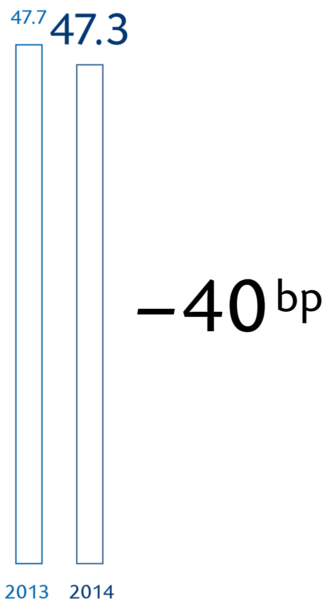
FFO I in € million



Dividend per share in €



EPRA NAV per share in €



LTV in %

[1] Diluted
[2] Adjusted

bp = basis points

KEY FACTS 2014

T1 – Key facts

		2014	2013	+/– %/bp
RESULTS OF OPERATIONS				
Rental income	€ million	**390.1**	360.5	8.2
Net rental and lease income	€ million	**284.9**	257.7	10.6
EBITDA	€ million	**390.3**	294.1	32.7
EBITDA adjusted	€ million	**259.3**	231.7	11.9
EBT	€ million	**219.5**	158.6	38.4
Net profit or loss for the period	€ million	**156.8**	136.9	14.5
FFO I	€ million	**163.6**	141.2	15.9
FFO I per share	€	**3.04**	2.67	13.9
FFO II	€ million	**161.9**	139.5	16.1
FFO II per share	€	**3.00**	2.63	14.1
AFFO	€ million	**120.2**	97.5	23.3
AFFO per share	€	**2.23**	1.84	21.2
PORTFOLIO				
Number residential units		**106,961**	94,311	13.4
In-place rent	€/sqm	**5.07**	4.96	2.3
In-place rent (l-f-l)	€/sqm	**5.11**	4.96	3.0
Vacancy rate	%	**2.8**	2.9	–10 bp
Vacancy rate (l-f-l)	%	**2.7**	2.9	–20 bp
STATEMENT OF FINANCIAL POSITION				
Investment property	€ million	**5,914.3**	5,163.4	14.5
Cash and cash equivalents	€ million	**129.9**	110.7	17.3
Equity	€ million	**2,491.6**	2,276.1	9.5
Total financial liabilities	€ million	**2,960.3**	2,583.7	14.6
Current financial liabilities	€ million	**413.8**	187.0	121.3
LTV	%	**47.3**	47.7	–40 bp
Equity ratio	%	**39.5**	42.0	–250 bp
EPRA NAV	€ million	**3,294.6**[1]	2,616.1[2]	25.9
EPRA NAV per share	€	**53.10**[1]	49.39[2]	7.5

[1] Diluted
[2] Adjusted
bp = basis points

CONTENTS

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
dear Ladies and Gentlemen,

LEG again demonstrated the effectiveness of its focused business model and the strength of its growth strategy in the past financial year. In conditions that remain positive for German residential properties, we outperformed the market once more. We achieved and, in some cases, even significantly exceeded our targets for operational and financial performance indicators.

LEG's business model pursues a sustainable, value-oriented growth strategy that combines the interests of our tenants and shareholders, i.e. growth for value.

That is why our annual report is entitled »Grow for it!«. Growth and size are not ends in themselves for LEG. Rather, it is a clear commitment to creating clear added value for our shareholders, tenants and other stakeholders with this growth.

The leading management expertise of the LEG platform remains a key value driver here. The scalability of this platform via acquisitions provides an additional major value-leveraging factor. LEG's regional focus on the core market of NRW and our understanding of customers and markets create structural competitive advantages. In conjunction with efficient deployment of capital, this forms a strong basis for sustainable value enhancement. Our leading operational profitability in the sector is a clear expression of LEG's strong positioning.

A high level of customer satisfaction is the key to long-term corporate success. We are therefore particularly pleased to have achieved yet another reduction in our low vacancy rate, which is a key indicator for customer satisfaction.

In 2014, LEG achieved rental growth per square metre on a like-for-like basis of 3.0%, with a very low vacancy rate of 2.7%. This result was achieved with average portfolio investment of around EUR 14 per square metre; this figure alone demonstrates our high capital efficiency. In this way, as well as maintaining the high quality of its property portfolio, LEG has also used attractive opportunities for selective, value-enhancing modernisation measures.

With regard to our acquisition strategy, we exceeded our set growth targets – without compromising our strict acquisition criteria. Since the IPO in February 2013, we have acquired around 19,000 residential units in LEG's core markets in nine off-market transactions. Overall, we have already generated an attractive initial FFO yield of over 8% here, while avoiding any dilution of NAV. We see further potential for value creation in these portfolios through careful integration in the LEG platform. After a bit more than a year, rents had already been increased by 4.8% on average and vacancies had been reduced. LEG's management expertise is therefore creating significant added value for our shareholders.

THOMAS HEGEL
Chief Executive Officer (CEO)

HOLGER HENTSCHEL
Chief Operating Officer (COO)

ECKHARD SCHULTZ
Chief Financial Officer (CFO)

On the basis of robust organic growth and the first earnings effects of the newly concluded acquisitions, the material key indicator FFO I (funds from operations) increased significantly in 2014. Consequently, earnings rose by 15.9% to EUR 163.6 million (EUR 3.04 per share). This earnings performance was based on a consistently strong and extremely sound balance sheet. As a result of rigorous cost discipline and the attractive synergies from the newly acquired portfolios, we increased our operating earnings at a faster pace than rental income, thus further enhancing our efficiency. Consequently, the adjusted EBITDA margin was significantly extended from 64.3% to 66.5%.

Our shareholders benefit directly from the increase in FFO I through rising dividends. For the 2014 financial year, we will therefore propose a dividend per share of EUR 1.96, up by 13.3% on the previous year. The LEG share is an attractive dividend paying stock.

The net asset value for shareholders (without goodwill) also rose significantly last year, by 6.7% from EUR 49.39 to EUR 52.69 per share.

The capital market has recognised our strong operating performance. Including the dividend distribution of EUR 1.73 per share, a total return of 49.1% was generated. LEG's shares thus outperformed the MDAX and the German property-company peer group. The capital market's trust in LEG was also reflected in 2014 in the successful capital measures: LEG's first issue of a convertible bond and the issue of new shares.

The prospects for continuation of the growth strategy remain positive. For the 2015 and 2016 financial years we expect the momentum in profit performance to continue. We forecast FFO I in a range of EUR 195 million to EUR 200 million (EUR 3.42 to EUR 3.50 per share) for 2015, and of EUR 223 million to EUR 227 million (EUR 3.91 to EUR 3.98 per share) for 2016 respectively. Our key earnings drivers remain robust organic growth, LEG's strong positioning on the financing market, expansion of tenant-oriented services, rigorous cost discipline and accelerated implementation of initiatives for long-term efficiency enhancement. In addition, we will continue to resolutely use the opportunities for value-enhancing acquisitions. Future acquisitions are not yet included in our earnings outlook.

Organic growth will continue to be driven by the structural increase in demand and the growing number of single- and two-person households. The positive additional demand effects of increased immigration are already tangible to LEG. We have noted that household figures in many markets in NRW are performing better than previously forecast. There is still no noticeable expansion in supply in the affordable housing segment at current rent levels. Rising construction costs, partly as a result of stricter energy-efficiency criteria, the debate on the rental cap and the increase in real estate transfer tax that came into force in January 2015 are expected to have a further negative impact on new rental apartment construction. This makes the existing housing stock even more important.

Prospects also remain positive in the other key growth areas. In terms of acquisitions LEG is benefiting from its broad-based presence and its established network in NRW. For example, we occupy the field of tenant-focused services by offering decentralised supply of heat and electricity to tenants. In conjunction with a strategic cooperation partner, LEG is going in an innovative direction that will involve further expectations of increased earnings power.

We aim to take advantage of the currently favourable situation on the financing market on a long-term basis. In this way, we are creating high planning capability for future profit and dividend growth for our shareholders. Through planned early refinancing of loans with a volume of around EUR 900 million, average financing costs are likely to be reduced to less than 2.3% with a maturity of more than 11 years. Therefore, LEG can claim the leading financing structure in the German residential property sector.

LEG uses the strengths of a regionally focused management platform. It is essential to keep building on this position of leading profitability, which is why we are reviewing our internal structures and processes once again. A willingness to embrace change is what has made LEG such a strong and outstanding performer in recent years. We remain committed to this approach. At the same time, we promise not to compromise in customer services.

Our employees are LEG's most important success factor. Their performance and motivation form the strong basis for the implementation of our growth strategy; together we are building our success. We would like to express our particular gratitude to them for this.

In addition, we would like to take this opportunity to thank our shareholders for the trust they have placed in us. We will continue to make every effort to maintain LEG as a stable, fast-growing company.

THOMAS HEGEL	**ECKHARD SCHULTZ**	**HOLGER HENTSCHEL**
Chief Executive Officer	Chief Financial Officer	Chief Operating Officer

EQUITY STORY

BURKHARD SAWAZKI
Head of Investor Relations

»Leading profitability and operating performance on the basis of a strong regional presence«

I – Attractive dividend on basis of leading operating profitability

The company's leading and further improving profitability is reflected in rising dividends. Again, shareholders can expect a significantly positive development in their dividends for 2014 and 2015. Based on the current earnings forecast and a planned distribution ratio of 65 % of FFO I, the dividend yield for 2016 is already around 3.5% (basis: share price of EUR 72.39 as of 3 March 2015).

II – Best-in-class financing structure on basis of a strong balance sheet

With its strong balance sheet, LEG is a preferred partner for leading financing banks. When concluding its refinancing LEG has the lowest financing costs within its industry at probably less than 2.3% with an average maturity of loans of more than 11 years.

III – Leading management platform – above-average rent growth

With rent growth of 3.0% combined with a low vacancy rate of 2.7%, LEG sets benchmarks for the management of German residential properties.

IV – Superior capital efficiency: high growth with relatively low capital expenditure

Growth alone is not an end in itself, rather the focus is on generating value. LEG reports the highest growth/capex ratio. LEG does not take a scattergun approach to investment at the expense of tenants and shareholders.

V – Scalable platform for acquisitions with high synergy potential

Since the start of 2013, around 19,000 residential units have been acquired on our core markets with high operating synergies and on the basis of strict investment criteria. The further improvement in efficiency can also be seen by the very strong earnings performance. The LEG acquisition strategy creates direct value added for shareholders.

VI – Experienced management team

The dynamic LEG platform is managed by a team with many years of property experience. The three members of the Management Board each have a horizon of experience of more than 20 years.

Key investment highlights

I – Attractive dividend on basis of leading operating profitability

II – Best-in-class financing structure; strong balance sheet

III – Leading management platform

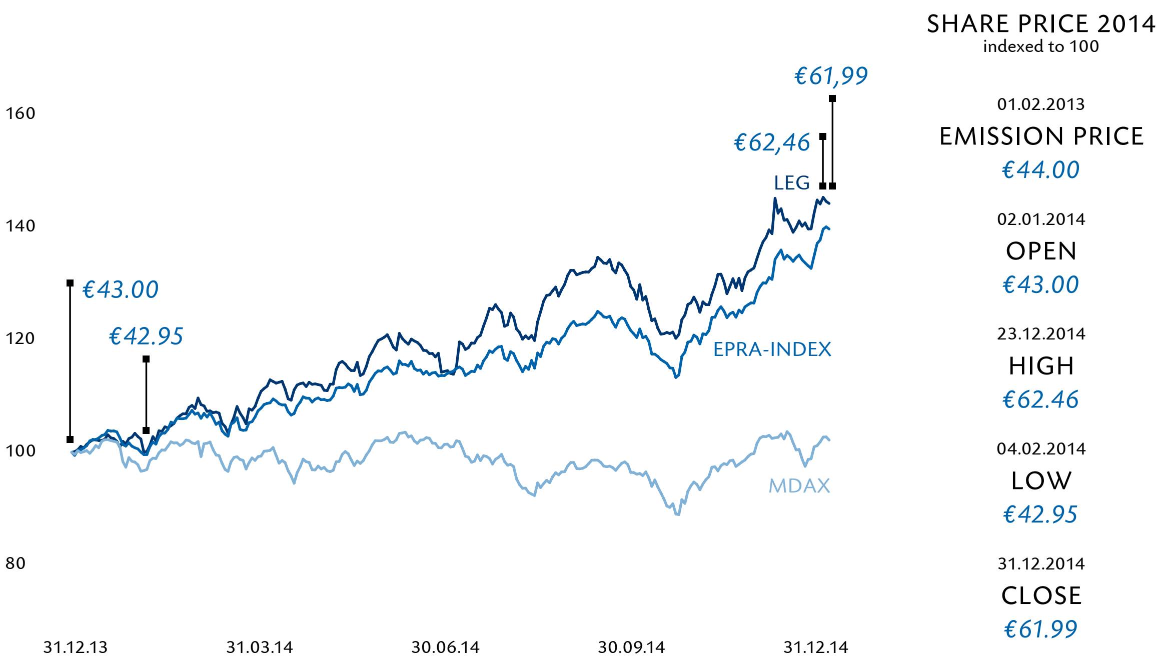
IV – Superior capital efficiency

V – Scalable platform for acquisitions with high synergy potential

VI – Experienced management team

THE SHARE

F1 – Share price development



With a price increase of 44.3%, LEG's shares were one of the biggest winners on the MDAX® midcap index. The shares therefore also significantly outperformed the benchmark index for German property stocks. Including the dividend distribution, the total performance for LEG shareholders amounted to 49.1%.

The German stock market turned in a moderate overall performance in 2014 while maintaining high volatility. The DAX® and the MDAX® posted total returns of 2.7% and 2.2% respectively.

The stock market was caught between the material negative factors – such as the geopolitical tension and the disappointing economic development in the eurozone – on the one hand, and a recovering US economy and the expansive monetary policy of the central banks on the other.

Against a backdrop of declining interest rates with record lows for returns on German government bonds and strong demand among investors for defensive asset classes, property shares performed better overall than the general stock market. The FTSE EPRA / NAREIT Index Germany, which tracks the performance of German property stocks, thus rose by 39.8% in 2014.

Significant price gains for LEG shares

Closing at EUR 61.99 per share, LEG's shares posted a price increase of 44.3% in 2014 and thereby did significantly better than the market as a whole and the benchmark index for property shares. Including the dividend distribution of EUR 1.73, the total performance for LEG shareholders amounted to 49.1%. LEG's shares reached their high for the year on 23 December with a closing price on Xetra of EUR 62.46.

Successful placement of capital measures

The capital market's trust in LEG's growth strategy was also reflected in the successful placement of a convertible bond and the issue of new shares.

In April, LEG placed a convertible bond with a volume of EUR 300 million in accelerated book building. With demand high, the coupon was 0.5% with a conversion premium of 30% on the reference price of EUR 47.99. This corresponds to an initial conversion price of EUR 62.39.

After the close of trading on 9 October 2014, in a difficult market environment, 4.1 million new shares – corresponding to 7.7% of share capital – were placed with institutional investors in just a few hours at a price of EUR 50.00, i.e., at a small discount on the closing price. The gross issue proceeds amounted to EUR 205 million.

Rise in free float and weighting in key indices

In January the original shareholder Saturea B.V. placed 15.176 million shares on the market, with Perry Luxco RE S.à r.l. placing 2.366 million in October. As a result of this redistribution, LEG's free float, as defined by Deutsche Börse, increased to 100%. The larger free float, the issue of shares and the positive price performance ultimately led to higher weightings in key indices, emphasising the greater significance of LEG shares on the capital market. At the end of 2014 its weighting in the MDAX® was 2.7% (end of 2013: 1.2%) and on the EPRA Europe Index 2.2% (end of 2013: 1.3%).

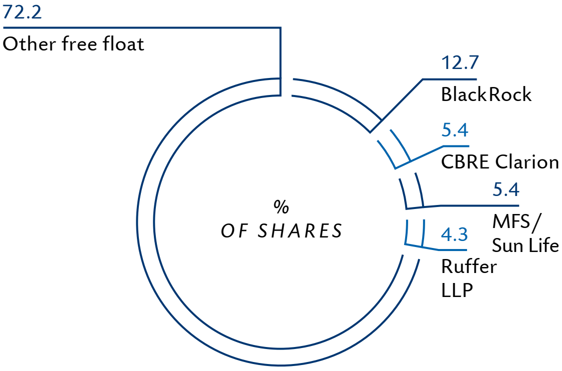
The increasing importance of LEG's shares on the capital market can also be seen by their inclusion in the Stoxx Europe 600® Index.

Investor relations activities

LEG sets great store by an active dialogue with its investors. In 2014 LEG took part in 30 capital market conferences or, alternatively, roadshows at key international financial centres. Its activities were therefore stepped up again, adding the locations Chicago, Philadelphia, Edinburgh, Milan, Geneva, Lugano and Hamburg. We also welcomed investors at our headquarters in Dusseldorf and presented our portfolio as part of property tours. Since the IPO in 2013, these measures have allowed the company to establish and intensify contact with around 500 institutional investors.

LEG's shares are currently being actively monitored by analysts from 18 investment firms. Coverage increased further in 2014, reflecting the high level of investor interest in LEG shares. Overall, there is a majority of positive opinions on the future prospects of LEG shares.

F2 – Shareholder structure



T2 – Share performance indicators

Ticker symbol	**LEG**
German Securities Code Number (WKN)	**LEG111**
ISIN	**DE000LEG1110**
Number of shares	**57,063,444**
Initial listing	**1 February 2013**
Market segment	**Prime Standard**
Indices	**MDAX, FTSE EPRA/NAREIT, GPR Indizes, Stoxx Europe 600**
Closing price (31 December 2014)	**€61.99**
Market capitalisation (31 December 2014)	**€3,537.4 million**
Free float (31 December 2014)	**100%**
Weighting in the MDAX (31 December 2014)	**2.66%**
Weighting in the EPRA Europe (31 December 2014)	**2.21%**
Average single-day trading volume (2014)	**132,724 shares**
Highest price (2014)	**€62.46**
Lowest price (2014)	**€42.95**

ACQUISITIONS 2014

300

units

locations
ESSEN, MINDEN, MOERS

01.06.2014
TRANSFER

5.43 €/sqm
IN-PLACE RENT

3.2%
VACANCY RATE

2,400

units

locations
ESSEN, DUISBURG, KREFELD

In the 1st half of 2015
TRANSFER

1,922

units

locations
DUISBURG, HATTINGEN

01.07.2014
TRANSFER

4.96 €/sqm
IN-PLACE RENT

3.0%
VACANCY RATE

9,591

units

locations
VITUS NRW-PORTFOLIO
33 locations in NRW core markets;
focus on Moenchengladbach,
Wuppertal, Leverkusen

01.11.2014
TRANSFER

4.76 €/sqm
IN-PLACE RENT

3.9 %
VACANCY RATE

PORTFOLIO

As at 31 December 2014, LEG Immobilien AG's portfolio comprised 106,691 residential units, 1,059 commercial units and 26,695 garages and parking spaces. The assets are distributed across around 170 locations in North Rhine-Westphalia. The average apartment size is 64 sqm with three rooms. The average building has seven residential units across three storeys.

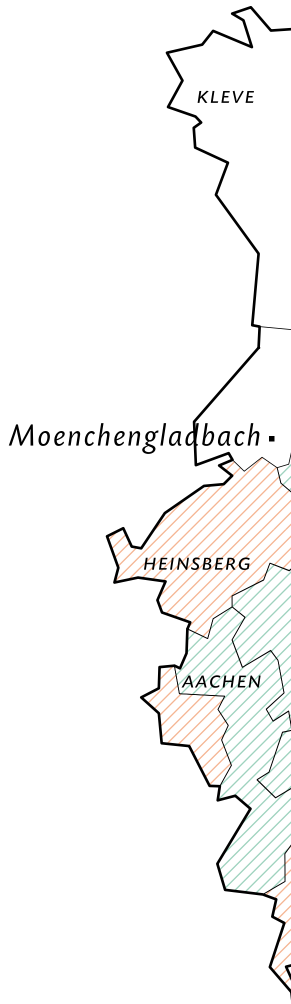
2014 was a year of growth for LEG. Acquisitions throughout NRW accounted for the addition of around 13,100 residential units to the portfolio in 2014. These acquisitions are located in LEG's core markets. The focus is on the cities of Moenchengladbach, Leverkusen, Wuppertal, Hagen and towns in the Ruhr area.

106,691

Residential units

c. 300,000

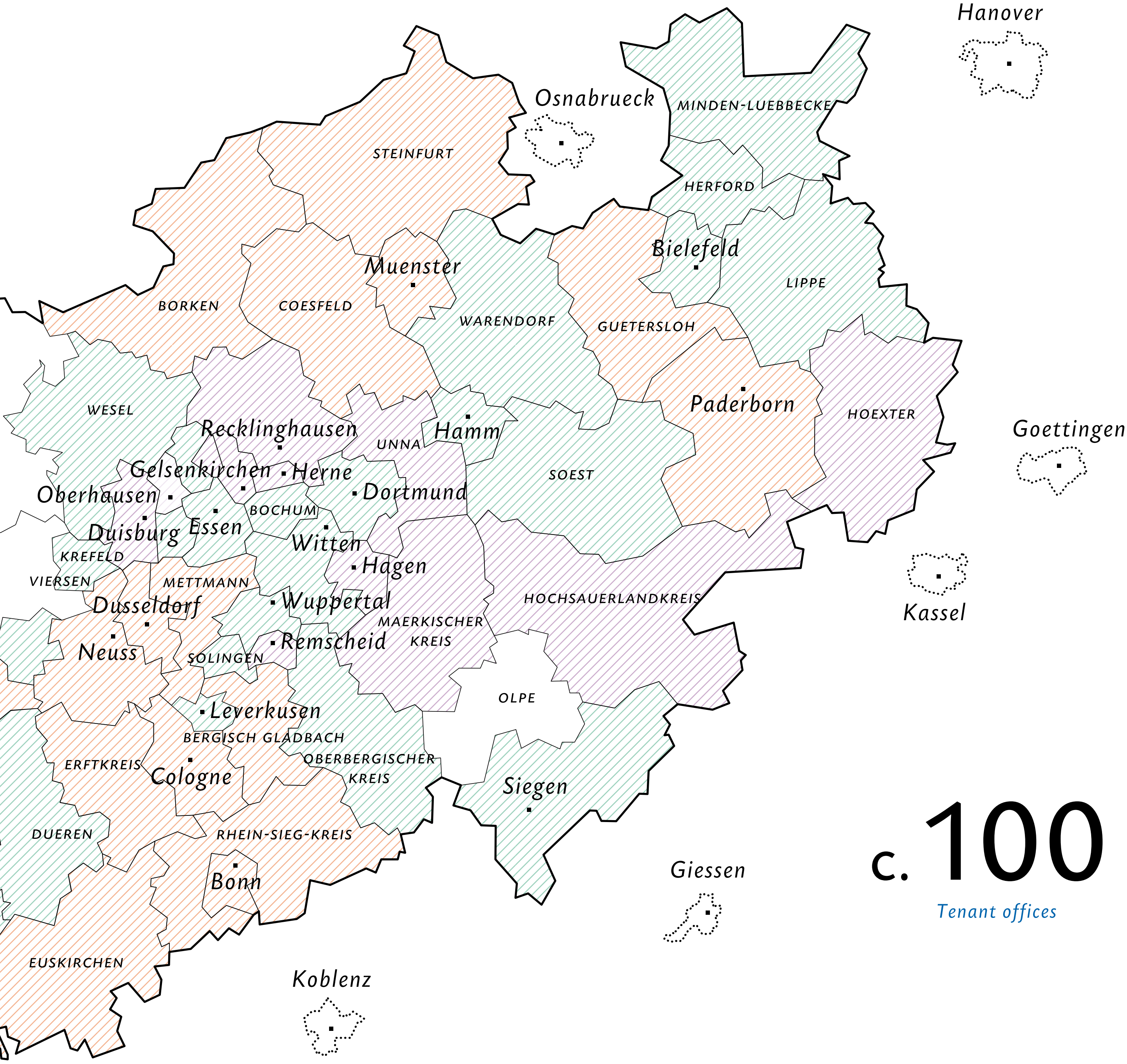
Tenants



- HIGH-GROWTH MARKETS
- STABLE MARKETS
- HIGHER-YIELDING MARKETS
- MARKETS NOT INCLUDED

LEG in North Rhine-Westphalia by market segment

19
Customer centres



c. 100
Tenant offices

Portfolio segmentation

The LEG portfolio is divided into three market clusters using a scoring system developed by CBRE: high-growth markets, stable markets and higher-yielding markets. All 54 municipalities and districts of North Rhine-Westphalia were analysed. The portfolio is spread across the entire state with the exception of the Olpe, Kleve and Viersen districts.

High-growth markets are characterised by a positive population trend, favourable forecasts for household numbers and sustained high demand for housing. Stable markets are more heterogeneous than growth markets in terms of their demographic and socioeconomic development; their housing industry appeal is on average solid to high. Higher-yielding markets are subject to a considerable risk of population decline. However, a strong local presence, attractive micro-locations and good market access mean there are still opportunities for attractive returns in these sub-markets.

The underlying indicators are based on the following demographic, socio-economic and real estate market data:

— Population trend 2000 to 2010
— Forecast for household numbers from 2010 to 2020
— Purchasing power index
— Number of people in employment and paying social security contributions 2000 to 2010
— Rent level in EUR per sqm
— Rent multiples for apartment buildings

T3 – Portfolio segments – Top 3 locations

	31.12.2014				
	Number of LEG apartments	*Share of LEG portfolio %*	*Living space sqm*	*In-place rent €/sqm*	*Vacancy rate %*
HIGH-GROWTH MARKETS	**32,847**	**30.7**	**2,165,788**	**5.71**	**1.1**
District of Mettmann	8,248	7.7	571,548	5.70	1.3
Muenster	6,098	5.7	404,555	6.06	0.3
Dusseldorf	3,542	3.3	228,960	6.06	0.6
Other locations	14,959	14.0	960,725	5.48	1.4
STABLE MARKETS	**42,916**	**40.1**	**2,747,024**	**4.81**	**3.0**
Dortmund	12,554	11.7	821,009	4.71	2.1
Moenchengladbach	6,050	5.7	383,259	4.87	2.4
Hamm	3,975	3.7	239,894	4.60	1.8
Other locations	20,337	19.0	1,302,861	4.90	4.1
HIGHER-YIELDING MARKETS	**29,284**	**27.4**	**1,810,809**	**4.69**	**4.4**
District of Recklinghausen	6,567	6.1	410,197	4.72	5.8
Duisburg	5,697	5.3	353,197	4.92	3.7
Maerkisch District	4,679	4.4	287,067	4.52	2.9
Other locations	12,341	11.5	760,349	4.64	4.4
OUTSIDE NRW	**1,914**	**1.8**	**131,056**	**5.05**	**1.6**
TOTAL	**106,961**	**100.0**	**6,854,678**	**5.07**	**2.8**

The scoring model is updated on a three-yearly basis and was unchanged compared to the previous year. Based on this system, the market ranking is headed by Bonn followed by Muenster, the Rhein-Sieg district, Cologne and Dusseldorf. A further 15 growth markets are distributed across the Rhineland and parts of Muensterland and the Paderborn district. The list of the municipalities and districts classified as stable markets is headed by the district of Aachen, the Oberberg district and Bielefeld; there are 20 further sub-markets spread across NRW state as a whole. The district of Unna heads the higher-yielding market segment, followed by ten further sub-markets predominantly in the Ruhr area and the more rural regions of Sauerland.

97.3 %

Occupation rate like-for-like

	31.12.2013						
	Number of LEG apartments	*Share of LEG portfolio %*	*Living space sqm*	*In-place rent €/sqm*	*Vacancy rate %*	*Change in-place rent % like-for-like*	*Change (basis points) vacancy rate like-for-like (31.12.2014)*
	31,506	**33.4**	**2,080,806**	**5.54**	**1.2**	**3.2**	**–20**
	8,092	8.6	560,966	5.54	1.5	3.2	–20
	6,102	6.5	404,954	5.91	0.2	2.5	10
	3,297	3.5	213,583	5.90	0.5	3.5	0
	14,015	14.9	901,303	5.29	1.6	3.8	–30
	34,631	**36.7**	**2,207,206**	**4.67**	**3.5**	**2.7**	**–30**
	12,561	13.3	821,203	4.59	2.9	2.4	–70
	311	0.3	21,420	5.19	1.9	2.9	30
	3,976	4.2	239,995	4.47	2.3	3.1	–40
	17,783	18.9	1,124,588	4.77	4.2	2.9	0
	26,697	**28.3**	**1,648,122**	**4.58**	**4.4**	**2.6**	**0**
	6,553	6.9	409,523	4.58	5.8	3.1	10
	4,746	5.0	291,394	4.76	3.9	2.8	–20
	4,412	4.7	269,730	4.48	2.8	2.0	–10
	10,986	11.6	677,475	4.53	4.4	2.5	0
	1,477	**1.6**	**97,476**	**5.10**	**1.4**	**4.0**	**20**
	94,311	**100.0**	**6,033,610**	**4.96**	**2.9**	**3.0**	**–18**

Performance of the LEG portfolio

Operating performance (rents, vacancy, fluctuation)

In the 2014 financial year, LEG Immobilien AG posted extremely dynamic growth in rent. On a like-for-like basis, net rent excluding heating rose by 3.0% from EUR 4.96 per sqm to EUR 5.11 per sqm. Including the acquisitions, the in-place rent of the portfolio stood at EUR 5.07 per sqm at the reporting date. This positive rent development is apparent in all sub-markets.

Rents increased by 3.4% year-on-year to EUR 5.42 per sqm (on a like-for-like basis) in the free-financed segment. The performance of the free-financed properties in the growth markets was particularly pleasing, with an increase of 3.6% to EUR 6.16 per sqm (on a like-for-like basis). In the stable markets segment, rents per sqm were up by 3.1% on the previous year at EUR 5.06 (on a like-for-like basis), while a rent increase of 2.8% to EUR 4.91 (on a like-for-like basis) was achieved in the higher-yielding markets.

In the rent-controlled apartments sector, the average rent generated rose by 2.4% to EUR 4.61 per sqm (on a like-for-like basis) year-on-year.

T4 – Performance LEG portfolio

		High-growth markets		*Stable markets*		
		31.12.2014	*31.12.2013*	**31.12.2014**	*31.12.2013*	
Subsidised residential units						
Units		11,178	11,408	15,885	14,924	
Area	sqm	775,468	790,756	1,083,487	1,013,013	
In-place rent	€/sqm	5.01	4.88	4.49	4.36	
Vacancy rate	%	0.8	1.1	2.9	3.0	
Free-financed residential units						
Units		21,669	20,098	27,031	19,707	
Area	sqm	1,390,321	1,290,050	1,663,537	1,194,193	
In-place rent	€/sqm	6.10	5.95	5.02	4.94	
Vacancy rate	%	1.2	1.3	3.1	3.8	
Total residential units						
Units		32,847	31,506	42,916	34,631	
Area	sqm	2,165,788	2,080,806	2,747,024	2,207,206	
In-place rent	€/sqm	5.71	5.54	4.81	4.67	
Vacancy rate	%	1.1	1.2	3.0	3.5	
Total commercial						
Units						
Area	sqm					
Total parking						
Units						
Total other						
Units						

Compared to 31 December 2013, the rigorous and successful management focus was again confirmed by an occupancy rate of 97.3% (on a like-for-like basis). The number of vacant apartments as at 31 December 2014 amounted to 2,544 units (on a like-for-like basis) and, taking into account the acquisitions during the year, 2,975 units (in absolute terms).

Constant demand for affordable rental properties was again observed across all market segments in 2014. The growth markets in particular demonstrated their high level of attractiveness with an occupancy rate of 99.0% (previous year: 98.8%). The positive demand for LEG's housing supply remains stable in the stable markets with a low vacancy rate of 3.1% (previous year: 3.4%) and in the higher-yielding markets with a vacancy rate of 4.3% (previous year: 4.3%) (both on a like-for-like basis).

Tenant satisfaction was also clear from the stable low fluctuation rate of 10.8% as at 31 December 2014 (31 December 2013: 10.9%).

+3.4%

Rental growth like-for-like free-financed units

		Higher-yielding markets		*Outside NRW*		*Total*	
		31.12.2014	*31.12.2013*	**31.12.2014**	*31.12.2013*	**31.12.2014**	*31.12.2013*
		8,642	8,932	120	154	35,825	35,418
	sqm	575,172	592,345	9,809	12,415	2,443,935	2,408,529
	€/sqm	4.28	4.19	4.31	4.19	4.61	4.49
	%	4.2	4.0	1.7	0.6	2.6	2.6
		20,642	17,765	1,794	1,323	71,136	58,893
	sqm	1,235,637	1,055,777	121,247	85,061	4,410,742	3,625,081
	€/sqm	4.88	4.79	5.11	5.23	5.33	5.27
	%	4.4	4.5	1.6	1.5	2.9	3.1
		29,284	26,697	1,914	1,477	106,961	94,311
	sqm	1,810,809	1,648,122	131,056	97,476	6,854,678	6,033,610
	€/sqm	4.69	4.58	5.05	5.10	5.07	4.96
	%	4.4	4.4	1.6	1.4	2.8	2.9
						1,059	**1,031**
	sqm					**195,572**	**197,613**
						26,695	**22,903**
						1,240	**853**

Value development

The following table shows the distribution of assets by market segment. The rental yield of the residential portfolio based on in-place rent is 7.2% (rent multiple: 13.9x).

Investment activity

In 2014, LEG spent a total of EUR 89.2 million on maintenance and value-adding investments eligible for capitalisation. This slight increase is mainly attributable to the portfolio expansion. At EUR 13.81 per sqm, the average investment volume remained at the level of the previous year (EUR 14.00 per sqm).

Of the total expenses in the course of the year, EUR 43.4 million (previous year: EUR 43.7 million) was attributable to measures eligible for capitalisation (capex) and EUR 45.7 million to expenditure-related maintenance measures (previous year: EUR 41.8 million).

The capitalisation rate in 2014 was 48.7% (previous year: 51.1%).

T5 – Market segments

	Residential units	*Residential assets € million*[1]	*Share residential assets/%*	*Value €/sqm*	*In-place rent multiplier*	*Commercial/ other assets € million*[2]	*Total assets € million*
HIGH GROWTH MARKETS	**32,847**	**2,337**	**41**	**1,112**	**16.3 x**	**164**	**2,501**
District of Mettmann	8,248	575	10	1,008	14.9 x	66	641
Muenster	6,098	533	9	1,318	18.2 x	38	571
Dusseldorf	3,542	281	5	1,249	17.1 x	20	301
Other locations	14,959	948	17	1,051	16.1 x	40	988
STABLE MARKETS	**42,916**	**2,067**	**36**	**733**	**13.0 x**	**80**	**2,147**
Dortmund	12,554	615	11	746	13.5 x	35	650
Moenchengladbach	6,050	289	5	748	12.8 x	1	291
Hamm	3,975	146	3	606	11.1 x	3	149
Other locations	20,337	1,017	18	743	13.1 x	40	1,057
HIGHER-YIELDING MARKETS	**29,284**	**1,157**	**20**	**639**	**11.8 x**	**42**	**1,198**
District of Recklinghausen	6,567	277	5	642	12.1 x	14	291
Duisburg	5,697	248	4	697	12.2 x	9	257
Maerkisch District	4,679	165	3	574	10.9 x	2	167
Other locations	12,341	467	8	633	11.8 x	16	483
SUBTOTAL NRW	**105,047**	**5,560**	**98**	**826**	**13.9 x**	**286**	**5,846**
Portfolio outside NRW	1,914	114	2	864	14.5 x	9	123
TOTAL PORTFOLIO[3]	**106,961**	**5,674**	**100**	**827**	**13.9 x**	**295**	**5,969**
Prepayments for property held as an investment property							17
Leasehold + land values							27
Inventories (IAS 2)							4
Finance lease (outside property valuation)							0
TOTAL BALANCE SHEET[4]							**6,016**

[1] Excluding 309 residential units in commercial buildings; including 295 commercial and other units in mixed residential assets.
[2] Excluding 295 commercial units in mixed residential assets; including 309 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] For 9,574 acquisition residential units information included from the fair value measurement by CBRE as of 30 September 2014.
[4] Thereof assets held for sale: EUR 58.4 million.

GROW FOR IT!

GROWTH FOR VALUE

INTERVIEW WITH THE MANAGEMENT BOARD

LEG rigorously pursued its growth strategy in the 2014 financial year, even significantly exceeding several of its targets. Strong operating performance indicators underline LEG's performance, including in comparison with competitors. With its robust growth, the market for German residential properties remains a key focal point, and is also facing up to changing challenges. In this interview, the Management Board members Thomas Hegel (CEO), Eckhard Schultz (CFO) and Holger Hentschel (COO) comment on the current development and future prospects of LEG.

THOMAS HEGEL
Chief Executive Officer (CEO)

ECKHARD SCHULTZ
Chief Financial Officer (CFO)

2014 was an eventful year for the property sector. German residential properties are the main focus of investors. How has LEG fared in its second year on the stock market in this environment?

THOMAS HEGEL We are very pleased with our results, and we are in a strong position. It is very important for us to reaffirm in our second year on the stock market that LEG is defined by leading operating performance. We have achieved our targets, even significantly exceeding some of them. Rent growth of 3.0% combined with a low vacancy rate of 2.7% represents operational excellence.

Furthermore, in the context of our value-generating acquisition strategy, we purchased around 19,000 residential units since the IPO and therefore clearly exceeded our acquisition target.

LEG's success is also reflected in our financial key figures. We significantly increased our FFO I to EUR 163.6 million. Our shareholders benefit directly, with the dividend increasing by around 13.3% to EUR 1.96 per share.

LEG has continued to rise in prominence on the capital market. What are the consequences of this for the company?

ECKHARD SCHULTZ The strong price performance of LEG shares, the increase in the free float to 100% and the issue of new shares mean that our shares now actually count among the heavyweights on the MDAX. The trust that this reflects on the part of the capital market is both an incentive and an obligation for us.

For the year 2014, the total return on LEG shares for our shareholders was 49.1%. This means that LEG shares not only performed better than the German stock market overall, but also outperformed LEG's property-company peer group.

LEG has gained a standing on the capital market that was also apparent in the successful issue of new shares and the first-time issue of a convertible bond in 2014.

The confidence shown in us is built on transparent reporting and intense dialogue with our shareholders. Our clear commitment is this: we deliver quality in our operating business and with our capital market's presence.

The annual report for 2014 is entitled »Grow for it!« What does that mean?

THOMAS HEGEL LEG is growing, but not just for the sake of it. In particular, we regard this as a quality-related aim: growth for value. We consider »Grow for it!« as our self-image and our motivation. It is a holistic concept.

With our growth strategy, we aim to create clear value added for our owners, the shareholders. A key element here is responsible deployment of our shareholders' capital. We aim to create value – and our tenants, employees and other stakeholders should gain long-term benefit from it. Continuous development is crucial if we are to meet our commitment to ourselves. We must keep on getting even better and outdoing ourselves every single day. This also includes constant reviewing of internal processes and structures. The aim is to further improve efficiency and customer satisfaction. We are not resting on our laurels.

The key pillar is organic growth. How do you see the prospects?

HOLGER HENTSCHEL In recent years, we have posted above-average growth, and that is also our objective for the years ahead. Our regional focus and leading management expertise with a strong service orientation and local presence ultimately make the difference. We understand our markets and our customers.

Our growth consists of various growth drivers: adjustment to market rents, expiry of rent control, selective modernisation measures and regular adjustment of restricted rents. Consequently, our growth path is very broad-based and stable.

We realise that our rents are remaining below the market level here. We are therefore confident of being able to continue our above-average organic growth.

For some cities and districts in North Rhine-Westphalia, population-trend forecasts are generally negative. How is this impacting on LEG's growth prospects?

THOMAS HEGEL The submarkets in our core market of NRW are varied. There are distinct growth centres, namely the cities on the Rhine and the university cities such as Muenster and Aachen. LEG has a strong presence in these markets. However, it is also apparent that the markets are generally on the rise. In the NRW metropolitan region, the neighbouring cities of the growth centres, which we call stable markets or higher-yielding markets, are increasingly benefiting from spillover effects.

We have noticed that many markets are performing better than forecasts anticipated. Cities such as Dortmund, Essen and Moenchengladbach are posting population growth again after occasionally lengthy phases of decline. Migration from abroad is providing considerable growth impetus for the market. With its large employment market, the NRW metropolitan region is a beneficiary of this trend.

»LEG is growing, but not just for the sake of it. In particular, we regard growth as a quality-related aim: growth for value.«

THOMAS HEGEL
Chief Executive Officer (CEO)

HOLGER HENTSCHEL The recorded population growth is giving the markets a further boost. Household growth – the crucial factor in demand – was already positive as a result of the continuous rise in the number of single- and two-person households. Therefore, there is a huge rise in demand for good-quality, affordable housing. With its range of products, LEG is ideally positioned on the market for these macro-trends. Furthermore, the quality of the micro-location is a hugely important factor. For instance, the dynamic positive performance in locations such as Duisburg and Gelsenkirchen in the previous year particularly underlines the high demand for LEG's product.

Sustainable management has featured prominently in the public debate. Are broad-based modernisation projects the key to success?

ECKHARD SCHULTZ LEG does not adopt a scattergun approach. We pursue sustainable modernisation with sound judgement for the benefit of our tenants and shareholders. There is no investment backlog in our portfolio. There was some catching up to do with some newly acquired portfolios, but we are working through this as scheduled. Overall, we have invested around EUR 14 per square metre in each of the last two years. We therefore remain above the level of EUR 12.50 stipulated in the social charter.

LEG's approach sets us apart from our competitors. A focus on capital efficiency and avoiding excessive demands on tenants are key strategic success factors in the residential sector, particularly in our market segment. Above-average investment levels in the acquired portfolios are creating added value for our customers and shareholders here.

»We pursue sustainable modernisation with sound judgement for the benefit of our tenants and shareholders. There is no investment backlog in our portfolio.«

ECKHARD SCHULTZ
Chief Financial Officer (CFO)

In addition, you aim to grow through acquisitions. How is LEG creating added value, and what is your assessment of the market environment?

THOMAS HEGEL The key phrase "capital efficiency" has already been mentioned. This approach also applies to our acquisition strategy. Size is not the measure of all things for LEG. Our value-oriented strategy is based on strict investment criteria geared towards creating direct added value for our shareholders. With the 19,000 residential units acquired up to the end of 2014, we have achieved initial FFO yields of 8% while avoiding a dilution of net asset value (NAV).

We have generated these attractive yields on the basis of the high degrees of synergy with the existing LEG portfolio. With our management expertise, we are creating additional value here. Consequently, our operational performance indicators developed extremely positively after the acquisition.

In NRW, LEG is the preferred partner for portfolio transactions. Our broad-based presence, strong balance sheet and reputation as a reliable partner with a sustainable management strategy are hugely beneficial to us.

The asking prices for portfolios have risen sharply in some growth markets. However, there remain attractive opportunities, particularly for portfolios that are spread across various locations and therefore require an existing management platform – like ours – or in the catchment areas of the growth centres.

Geographically, LEG is not strictly limited to the borders of NRW. Locations in neighbouring regions are also of interest to LEG.

What goal have you set for the next few years?

THOMAS HEGEL On the basis of small and medium-sized portfolio transactions, the acquisition of at least 5,000 or so units per year is a realistic figure. However, as we have already demonstrated, we are not afraid of growing much more quickly if appropriate opportunities for larger-scale transactions arise. With current financial resources of around EUR 500 million to EUR 600 million, LEG is well prepared for this.

How have the portfolios performed that LEG acquired since the IPO?

HOLGER HENTSCHEL A major lever in our value-oriented acquisition strategy is the successful integration of the purchased portfolios into our LEG platform. With the small and medium-sized acquired portfolios, we increased rents by 4.8% on average within a period of a bit more than a year. This is further proof of our platform's effectiveness.

Can you point to any initial success with integration of the Vitus portfolio?

HOLGER HENTSCHEL Yes, definitely. Our positive assessment of this portfolio's potential has been more than vindicated. The vacancy rate was reduced significantly here within just a few months.

How do you rate the potential for privatisation of public-sector portfolios?

THOMAS HEGEL Given LEG's history and our broad-based presence in the core markets, LEG has always been a partner of the municipalities in NRW. As well as constantly maintaining this self-image, we have also built up our partnerships. Our sustainable management, track record in turning around portfolios – even those with challenging histories – and responsible approach have not gone unnoticed by the municipalities.

In close collaboration with the municipalities, we develop concepts for successful neighbourhood management and integration of immigrants and refugees.

As a result, we are highly trusted by the public sector – and we are also proud of this.

LEG is a textbook example of successful privatisation. Selling off properties can mean a win-win situation and create scope for important future investment for many municipalities with significant budget restrictions.

I am optimistic that these opportunities from privatisation will become increasingly apparent. LEG is ideally placed for this development.

Besides the management of residential properties you also offer additional services. How satisfied are tenants and shareholders with them?

HOLGER HENTSCHEL Very satisfied. Our existing range of tenant-oriented services is well received, and has encouraged us to pursue our expansion plans. In 2014, we launched our multimedia business via our subsidiary WohnService Plus GmbH. With our cooperation partner Unitymedia, we put together an extensive product package on attractive terms. The response from our tenants was very positive, and the economic success clearly exceeded our expectations. A substantial earnings contribution is expected here for 2015. Our aim is to create added value for tenants and shareholders. We see great potential in the development of additional services for our tenants. We regard our current activities as a blueprint for future expansion.

Could you be more specific about that?

HOLGER HENTSCHEL Yes, in 2014 we launched a pilot project with K & S in Dortmund for support of senior citizens. In addition to structural measures, we are increasingly focusing on services for this ever-more important tenant group.

A broad-based major project for decentralised provision of heat and electricity for our tenants is also in the preparation phase. We aim to go in an innovative new direction with a strategic cooperation partner, and see significant potential for LEG here.

Interest rates are continuing to fall. What impacts and opportunities does this present for LEG?

ECKHARD SCHULTZ LEG's business model is based on a high level of financial flexibility and a consistently strong balance sheet. This creates trust among banks and on the capital market, as well as scope for growth.

Consequently, LEG is a preferred partner of leading property-financing banks. In terms of financing, we are benefiting not only from the record low interest rates, but also from falling credit margins as a result of more intense competition. For instance, we can take out loans for financing acquisitions with a volume of over EUR 300 million and a term of 10 years at an average of 1.7 %. These are benchmark terms on the financing market, and demonstrate the strength of LEG.

In view of this environment, LEG has decided to ensure it gains long-term benefit from the current highly favourable terms with early refinancing. This will also significantly strengthen growth in profitability and therefore the basis for rising dividends.

You have mentioned LEG's leading management expertise. To what extent do staff qualifications and, consequently, staff development play a role here?

THOMAS HEGEL Our employees are a crucial factor in our success. LEG's comprehensive management platform is so successful because we have motivated and highly qualified people on site. This naturally also has a positive impact on customer satisfaction.

Staff development is an increasingly high priority at LEG. We develop potential in our own ranks through targeted talent management, provide further training for our caretakers, the direct contacts for our tenants, and have developed a special certification programme.

However, we can improve even more in this area: to increase our employee satisfaction and gauge requirements, we took part in the benchmark study »Great Place to Work« for the first time in 2014. Our results are already well above-average, but we have set ourselves the clear aim of improving ourselves here as well.

In this area, it is particularly important to visibly live an open communication culture. With this in mind, we are also expanding the use of 360° feedback. The Management Board adopted this feedback process last year, and now it is being stepped up.

Issues such as migration and the importance of sustainable management have already been addressed. What major social challenges does the residential sector have to face up to?

THOMAS HEGEL Affordable housing is a basic human need for large sections of society. LEG is aware of its responsibility. This also includes maintaining a balance in terms of social objectives. In many sub-markets, maximum solutions, e.g. relating to energy-saving renovations, can lead to excessive demands on tenants and make rents unaffordable.

When it comes to fundamental future-related issues such as energy-efficiency, political approaches like tokenism or one-sided analysis ultimately miss the point.

»Our regional focus and leading management expertise ultimately make the difference. We understand our markets and our customers.«

HOLGER HENTSCHEL
Chief Operating Officer (COO)

HOLGER HENTSCHEL With regard to energy efficiency, LEG is focused on intelligent solutions in collaboration with strategic partners. In decentralised energy supply, for example through efficient combined heat and power systems, there are interesting solutions that are beneficial to the environment while taking economic efficiency and socio-political aspects into account. We have already started initial pilot projects here. In future, energy supply for our tenants will be an attractive new business area of LEG.

People from over 45 nations live in LEG's districts. This presents us with an integrative challenge involving great responsibility, although we are keen to take it on, particularly as far as the rising number of immigrants or refugees from crisis-torn areas is concerned. LEG has shown great flexibility in accommodating these groups in close cooperation with the municipalities. We can help in many areas here, such as the opportunity for short-term, flexible leases, assistance in dealing with public authorities, provision of rooms for language lessons or the integration of neighbourhoods through social activities such as tenant parties. LEG sees itself as a natural partner for the municipalities in social issues as well.

This also applies to demographic change as a major future social issue. We are actively involved in outpatient care and day-to-day care of our older tenants. This is accompanied by age-appropriate refurbishment of apartments. We want people to be able to stay at home and within their social framework for many years.

The state has defined important conditions for the residential sector. How will the rental cap impact on LEG and the property market?

ECKHARD SCHULTZ The introduction of the rental cap does not constitute a real solution as far as the primary aim here is concerned: provision of affordable housing. There is a lack of supply on the market. An increase in regulations that are detrimental to investment will have more of a counterproductive effect here in the long term. This view is backed up by numerous independent institutions and economic research institutes.

However, in terms of LEG's business model, the effects will remain limited. We have increased rents by 2.4% on average in the last few years. However, they remain below the market level, and in re-letting we are also well below the 10% threshold on average. LEG's letting strategy is based on sound, stable development, and not placing excessive demands on customers.

The increase in real estate transfer tax to 6.5% came into force in NRW on 1 January 2015. How will this affect LEG?

ECKHARD SCHULTZ As with the rental cap, this is likely to have generally negative effects on growth of supply. It will become much more expensive to build or buy an owner-occupied home to ease the burden on the rental market. The targeted increase in tax revenue is already in conflict with socio-political considerations here.

Regarding the impacts on LEG, we have already adopted a very conservative approach here. In our property valuation, we have assumed that the increase in real estate transfer tax, and consequently transaction costs, by 1.5 percentage points will impair value. Nevertheless, our sustainable management strategy is not based on substantial sales.

Could you possibly give us a medium-term outlook?

THOMAS HEGEL We continue to envisage stable growth trends. The fundamental demand and supply factors remain distinctly positive. Therefore, LEG also has bright prospects for value-generating growth in the medium term.

We expect more than proportionate organic growth to continue in future. LEG's already strong profitability will continue to increase disproportionately – we aim to further increase our operating margin on the back of this. This will be also apparent in our earnings outlook for 2016.

In recent years, LEG has been characterised by a high level of continuity combined with a willingness to embrace constant change. This has resulted in a positive change culture. Our structures and processes are being continuously reviewed. We aim to become even more efficient and thus maintain our leading profitability in the sector. However, we will certainly not compromise in serving our clients.

In addition, we will continue to use our competitive strengths in value-enhancing acquisitions and expand our tenant-oriented services business.

We take our slogan »Grow for it!« very seriously: for the benefit of our customers, shareholders and other partners, we aim to make LEG's platform stronger and keep on growing. We have every reason to be optimistic here.

DIVIDEND INCREASE

BY 13.3 % TO EUR 1.96

PER SHARE

OELDE IS OUR HOME

Syde Saoumi, Toni, Gbran, Jaques Christian and Lukas Botrus have been living in Germany for 15 years and see the country as their home.

North Rhine-Westphalia is one of the main European immigration regions. A total of 4.3 million people from a migrant background live in NRW, which corresponds to 25% of the population. The successful integration of foreign citizens requires space, time, calm and respect.

LEG takes social responsibility seriously, and pursues active neighbourhood management for various target groups. At LEG, we put integration into practice. People from 45 different nations have a home here.

They include Toni Botrus and his wife, Syde Saoumi, Syrian Christians who were forced to flee their homeland 14 years ago. At the time, they went to Guetersloh, where one of their brothers already lived. After a while, they found a new place to live in Oelde and both learned German. Toni Botrus found a job in vehicle body construction and Syde Saoumi – in Syria it is the custom for wives to keep their name – fulfilled her heart's desire and became a mother. She has given birth to three sons in Germany, Gbran, Jaques Christian and Lukas.

Thanks to LEG's multimedia cooperation with Unitymedia, the Botrus family can receive a host of channels in HD quality and can choose a selection of foreign-language channels.

45

different nations have a home with LEG.

The boys love playing in the garden. They don't always agree about football, except where Schalke are concerned.

The family of five lived in an apartment in Oelde which was always somewhat cramped, and they longed for a house with a garden. In 2013, their wish was fulfilled and the Botrus family moved into a pretty LEG redbrick terraced house in Oelde. The family showed great initiative and commitment in renovating the house, and their home is now a real gem that has been furnished with great attention to detail. Syde Saoumi enjoys changing the décor of the house to reflect the different seasons. In their new home, her husband can pursue his hobby of playing the keyboard without disturbing the rest of the family, while the three boys can play football in the garden. However, the trio do have their disagreements about football. Each one plays in a different shirt and supports a different German team.

The Botrus family has put down roots in Oelde. "We are settled here, Oelde is our home. This is partly because it is so quiet and peaceful here, and we have had such a friendly welcome," says Syde Saoumi, with a smile. ■

»We are settled here, Oelde is our home. This is partly because it is so quiet and peaceful here, and we have had such a friendly welcome.«

SYDE SAOUMI, OELDE

IN THE MIDST OF LIFE

Anne-Marie and Gundolf Wetter lead a very active life and enjoy spending time in their apartment, which is tailored to their requirements.

1.3 million

people in NRW will be over 80 years old in 2030.

The effects of demographic change have also increasingly impacted on the residential sector. In North Rhine-Westphalia, around a third of the population will be aged 65 years or more by 2030. The number of elderly people aged over 80 is set to rise to more than 1.3 million.

LEG is a reliable partner for its tenants in terms of enabling them to live as autonomously and independently as possible in a familiar environment, which includes in old age. Housing suitable for senior citizens at fair prices is therefore an increasingly important factor in the target group-oriented sustainable management of the portfolio.

In old age, especially the smaller things in life become increasingly difficult. That is why LEG offers its tenants bespoke solutions to meet their requirements, from handrails in the bathroom and a ground-level shower to "meals on wheels" at lunchtime or a dedicated care service in the district. LEG has a wide range of services that are appropriate for the various wishes and financial situations of our tenants.

The bathrooms are also accessible,
with comfortable ground-level showers.

The spacious hall area serves as a communal meeting place for all tenants. Residents' Christmas celebrations are also held here.

Eight years ago, Anne-Marie Wetter (77) and Gundolf Wetter (78) decided to swap their own home for an accessible new LEG apartment in Hoexter, in the heart of the Weserbergland. With 22 different apartments and an ideal location, the couple were won over by carefully designed housing complex while it was still being built. "I was practically one of the builders," says Gundolf Wetter, who followed the construction of the building very closely.

For instance, the residential complex has extra-wide corridors and doors, accessible baths, automatic lighting systems and battery-charging points for wheelchairs in the vestibules. As fans of Nordic walking, swimming and even the fitness studio, the Wetters are certainly still sprightly pensioners and are not in need of these services, but they are a source of reassurance for the future. In particular, the couple appreciate the good company of the other tenants. "No-one is alone here," says Gundolf Wetter. Even the porch has a special meaning for all residents. All apartments can be accessed by an external covered passageway. In summer, many of the apartment doors are open and life is virtually al fresco. This helps to encourage interaction.

»I was practically one of the builders.«

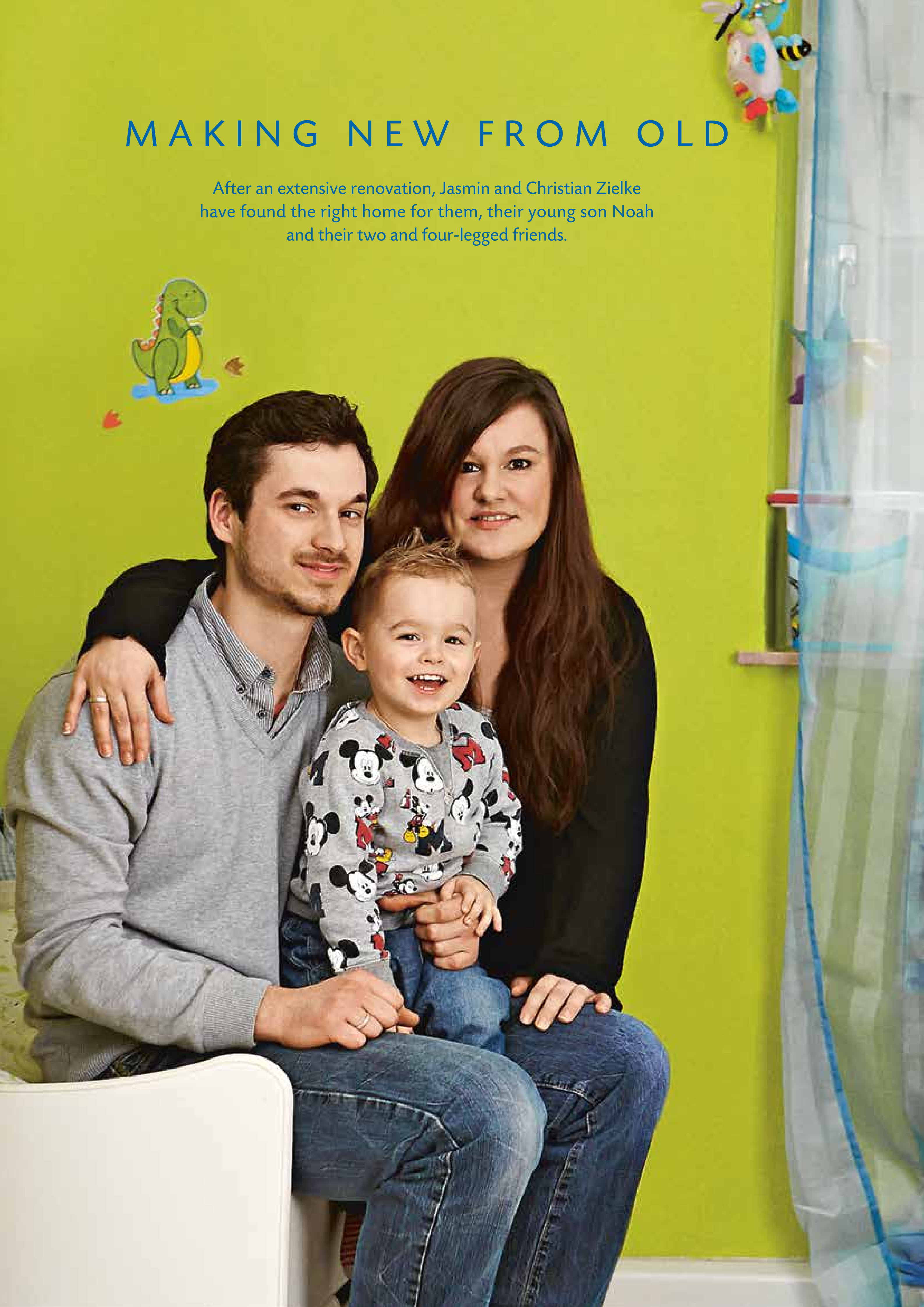
GUNDOLF WETTER, HOEXTER

Gundolf Wetter and his formidable wife Anne-Marie are both very caring individuals and are happy to take up the concerns of the residents. "A good deed every day" is her motto. This could be delivering the newspapers in the morning or organising communal parties in the "public lounge", which is part of the spacious hall area.

And don't be surprised if you hear birdsong in the hallway. It will be the Wetters' orange canaries, which live in a large aviary, adding a dash of Mediterranean flair and cheerful chirping. ■

MAKING NEW FROM OLD

After an extensive renovation, Jasmin and Christian Zielke have found the right home for them, their young son Noah and their two and four-legged friends.



19,000

apartments have been purchased by LEG since the IPO

LEG is growing. It has acquired around 19,000 residential units since its IPO in 2013. The growth target of 10,000 units by the end of 2014 has clearly been exceeded. Another target is to successfully and sustainably integrate the purchased portfolios, which are subject to strict acquisition criteria, into LEG's management platform.

The acquired apartments are optimised quickly through the fast integration of portfolios into the existing customer-centre structure, implementation of standard LEG processes and instruments and fast creation of transparency through key performance indicators. Key factors in this regard are rigorous customer orientation and customer satisfaction.

Take Bocholt, for example, where LEG has around 1,500 apartments. In March 2014, Jasmin and Christian Zielke and their two-year-old son Noah moved into a six-family house that LEG had previously bought in the context of a portfolio acquisition. The young couple clearly recall the condition the apartment was in at the time. "You wouldn't have wanted to live there," says Jasmin Zielke. "However, I had vision, and saw in my mind's eye what could be done with it." The apartment was renovated, and a new bathroom, new doors and a new floor were installed. The Zielkes also stepped up their own investment in the four-room apartment and applied many creative ideas to make their home comfortable and cosy. "LEG was always helpful, and whenever we had a problem, it was resolved. Being so close to the LEG tenants' office is also practical. As this is used by many tenants, there might sometimes be a slightly longer wait," comments Christian Zielke. Nonetheless, the positives are overwhelming. "For instance, LEG has banned parking on the lawns, and the children now have more space to play. There is also a new sandpit."

What is more, the location is ideal. A kindergarten and a small park are nearby. The city centre is within walking distance. Being natives of Bocholt, the young parents know that it is a clean and friendly city with welcoming people. They feel very settled in their housing community, even though they are the only family with a child there. Lively young Noah enjoys the undivided attention of the mainly elderly residents.

The Zielkes were also pleased with the way LEG welcomed their fellow residents. As well as their son Noah, there are Leon, Legi, Maggie, Gerry, Bobbi and Lilli. These are a crossbreed dog, an iguana, two bearded dragons (a smaller type of iguana) and two budgies. The family also have a variety of fish in an aquarium.

"I can't imagine life without our animals. We wouldn't have moved without them," explains Jasmin Zielke, who takes pains to point out that all is running smoothly despite the child and the small animals. "And you can't say that for all housing companies." ■

»I can't imagine life without our animals. We wouldn't have moved without them.«

JASMIN ZIELKE, BOCHOLT

2

TWO

CORPORATE GOVERNANCE

REPORT OF THE SUPERVISORY BOARD

MICHAEL ZIMMER
Chairman of the Supervisory Board

Dear Shareholders,

The 2014 financial year was a successful one for the company. The LEG Group continued the ambitious growth course it had announced. For example, LEG Immobilien AG implemented capital measures for the first time since going public. In April the company placed a convertible bond that generated EUR 300 million. In October the company carried out a capital increase of around EUR 205 million in support of its growth strategy.

Since its IPO, the LEG Group has acquired a total of around 19,000 residential units for its portfolio, far exceeding the growth target of 10,000 units it had announced for the end of 2014. A key milestone in the 2014 financial year was the purchase of the North Rhine-Westphalian portfolio of the Vitus Group. As the LEG Group has its roots in North Rhine-Westphalia, it has outstanding proximity to these locations and detailed market expertise.

Key areas of Supervisory Board activities

In the second financial year, the Management Board, the Supervisory Board and the company worked together intensively and in various ways to further LEG. The Management Board of LEG Immobilien AG reported to the Supervisory Board regularly and comprehensively on all relevant economic and financial issues as well as business performance. In addition to the regularly occurring Supervisory Board meetings, the Management Board involved the Supervisory Board, comprehensively and in a timely manner, in all decisions of material importance to the company.

Collectively, the members of the Supervisory Board have the necessary knowledge, abilities and specialist experience to perform their duties properly. The professional expertise of the individual Supervisory Board members is complementary in that the Supervisory Board as a whole is sufficiently diverse to perform its duties comprehensively. This ensures that the Supervisory Board performs its control and advisory function properly as prescribed by law, the Articles of Association, the German Corporate Governance Code and the Rules of Procedure.

There were four scheduled meetings of the Supervisory Board and one extraordinary meeting in the 2014 financial year.

After the Management Board and the Supervisory Board successfully held the joint strategy conference for the first time in the previous financial year, the Management Board again invited the Supervisory Board to a strategy conference in October 2014. The two bodies mainly discussed the implementation of the strategy adopted in 2013 and the updates to corporate strategy presented by the Management Board. Corporate strategy was adjusted in line with the changing market environment and the development of the peer group, also taking into account the requirements of the capital market. In particular, the Management Board and the Supervisory Board intensively discussed the portfolio management, acquisition and financing sub-strategies. The results of the strategy conference formed a sound decision-making basis for the business planning adopted by the two bodies in November 2014.

The members of the Supervisory Board Heather Mulahasani, James Garman and Dr Martin Hintze informed LEG on 4 March 2014 that they would be standing down from the Supervisory Board of LEG Immobilien AG from 2 April 2014. All three Supervisory Board members are employees of the Goldman Sachs Group. The substitute members Michael Furth, Richard Spencer and Patrick Tribolet also resigned their mandates with immediate effect. These resignations were by mutual arrangement in light of the sale on 23 January 2014 of a 26.65% interest in LEG Immobilien AG by the former major shareholder Saturea B.V., which is indirectly owned by Whitehall private equity funds and funds managed by Goldman Sachs. It is normal procedure for a shareholder that is selling its shares to give up any seats on a supervisory board around this time. The interest held by Saturea B.V. amounted to only 0.41% in January 2014.

In this context, the Supervisory Board redesigned the future structure of the Supervisory Board of LEG Immobilien AG and recommended to the Annual General Meeting that the number of its members should be reduced from nine to six. The Supervisory Board has not experienced any disadvantage despite the reduction in the number of its members. The expertise that is essential for successful Supervisory Board work is still represented, and workflows benefit from the reduced need for coordination between members. Even after the reduction in the number of its members, the Supervisory Board still has outstanding expertise at its disposal.

At the same time, the Acquisition Committee was dissolved and its duties transferred to the Executive Committee.

The resolution to make the necessary amendment to the Articles of Association to reduce the Supervisory Board from nine to six members was approved at the Annual General Meeting on 25 June 2014.

T6 – Composition of committees of LEG Immobilien AG in 2014

	Supervisory Board	*Audit Committee*	*Executive Committee*	*Acquisition Committee**	*Nomination Committee*
Nathan Brown	Member	Member	Member from 03.04.2014	Member	Member from 03.04.2014
James Garman	Member until 02.04.2014	–	Member until 02.04.2014	Member until 02.04.2014	Member until 02.04.2014
Dr Martin Hintze	Member until 02.04.2014	–	–	–	–
Stefan Jütte	Deputy Chairman	Chairman from 26.03.2014	Member	Member	Member
Dr Johannes Ludewig	Member	–	Substitute member from 03.04.2014	–	Substitute member from 25.03.2014
Heather Mulahasani	Member until 02.04.2014	–	–	–	–
Dr Jochen Scharpe	Member	Member (Chairman until 25.03.2014)	–	–	–
Jürgen Schulte-Laggenbeck	Member	Substitute member from 25.03.2014	–	–	–
Michael Zimmer	Chairman	–	Chairman	Chairman	Chairman

* until 2 April 2014
Source: LEG Immobilien AG

Executive Committee

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte, and Mr Nathan Brown (from 3 April 2014). Dr Johannes Ludewig was elected as a substitute member (from 3 April 2014). As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. The Executive Committee met eight times in the 2014 financial year, with three of these meetings taking the form of a conference call.

The subject matter of the meetings was the discussion of and resolution on the future structure of the Supervisory Board, financing and growth strategy and the achievement of targets by members of the Management Board. The Executive Committee also focused on the implementation of the acquisition strategy. Moreover, three resolutions were adopted by way of written vote, on target corridors for the LTI for the Management Board and the acquisition of portfolios – including by way of share deals.

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 Nomination Committee consists of members of the Executive Committee. Dr Johannes Ludewig was elected as a substitute member (from 3 April 2014). The Nomination Committee did not meet in the 2014 reporting year.

Audit Committee

The Audit Committee consists of the following three members: Mr Stefan Jütte (Chairman), Dr Jochen Scharpe (Deputy Chairman) and Mr Nathan Brown. Mr Jürgen Schulte-Laggenbeck, who resigned as an ordinary member of the Audit Committee effective 25 March 2014, was elected as a substitute member of the Audit Committee.

The Audit Committee met five times in the 2014 financial year; one of these meetings was an extraordinary meeting. The matters covered at the ordinary Audit Committee meetings were the detailed discussion of the annual financial statements and annual report, including the management report, for 2013 (separate financial statements) and the consolidated financial statements and annual report, including the management report, for 2013. The Audit Committee also acknowledged the reports of the Management Board on the quarterly figures, the internal KPI ("KPI tree") compared to the peer group and the financial structure. Furthermore, at its meetings the Audit Committee intensively dealt with the issue of the convertible bond in April 2014, the sale of shares in Wohnungsgesellschaft Münsterland mbH, Ravensberger Heimstättengesellschaft mbH and Ruhr-Lippe-Wohnungsgesellschaft mbH to LEG NRW GmbH, the amendment of the Rules of Procedure for the Management Board regarding approval requirements for credit facilities or loans, the acknowledgement of the status of the "DPR audit (Deutsche Prüfstelle für Rechnungslegung)", 2014/2015 audit planning, business planning for 2015 to 2019 as a main subject and the adjustment of treasury policy regarding minimum liquidity regulations. In its extraordinary meeting on 17 September 2014 the Supervisory Board mainly discussed the financing strategy of the LEG Group, in particular in connection with the acquisition of the North Rhine-Westphalian portfolio of the Vitus Group.

Acquisition Committee

The Acquisition Committee was dissolved effective 2 April 2014 and its duties transferred to the Executive Committee. In the 2014 financial year the Acquisition Committee met twice before it was dissolved. At the meetings the committee discussed the acquisition of additional property portfolios and the acknowledgement of the financing strategy in connection with the growth strategy of the LEG Group.

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary Supervisory Board meetings and one extraordinary meeting in the 2014 financial year.

Six resolutions were passed by way of written procedure. These resolutions had been previously discussed in detail at Supervisory Board meetings, but the Board had not been ready to make a decision at the time of the meeting. The resolutions by written procedure were announced at the preceding Supervisory Board 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 more than half of the meetings.

At its meeting on 25 March 2014 the Supervisory Board discussed the future structure of the Supervisory Board and its committees and amended the Rules of Procedure for the Supervisory Board. With the departure of the three Supervisory Board members Garman, Dr Hintze and Mulahasani, the following structure was resolved in the Supervisory Board:

— The Management Board is asked to propose to the Annual General Meeting a reduction of the Supervisory Board from nine to six members at the recommendation of the Executive Committee,
— Nathan Brown is elected as a member of the Executive Committee effective 3 April 2014; Dr Johannes Ludewig is elected as a substitute member of the Executive Committee effective 3 April 2014,
— Nathan Brown is elected as a member of the Nomination Committee effective 3 April 2014; Dr Johannes Ludewig is elected as a substitute member of the Nomination Committee effective immediately,
— Jürgen Schulte-Laggenbeck is elected as a substitute member of the Audit Committee effective immediately and has resigned as an ordinary member of the Audit Committee effective immediately; Stefan Jütte is elected as the Chairman of the Audit Committee and Dr Jochen Scharpe as its Deputy Chairman,
— The Acquisition Committee is dissolved effective 2 April 2014 and its duties transferred to the Executive Committee.

Following a detailed examination and discussion, the annual financial statements for 2013, including the management report, were adopted and the consolidated financial statements for 2013, including the Group management report, were approved at the recommendation of the Audit Committee. In preparation for the second Annual General Meeting, the Supervisory Board again appointed 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 also dealt with preparatory resolution items, determined the agenda for the second Annual General Meeting and decided the appointment of the auditor for 2015.

Furthermore, the Supervisory Board adopted the report of the Supervisory Board for the 2013 financial year to the Annual General Meeting and approved the annual report for 2013, including the joint report by the Management Board and Supervisory Board on corporate governance in accordance with item 3.10 of the German Corporate Governance Code. Moreover, it updated its goals in accordance with item 5.4.1 of the German Corporate Governance Code.

Another focal point of the meeting was the policy decision to issue a convertible bond as part of the LEG Group's growth strategy. In this context, for the event of the convertible bond being issued before 16 May 2014, it was resolved to add the resolution on authorised and contingent capital and on issuing convertible bonds to the agenda for the Annual General Meeting.

Discussion at the meeting of the Supervisory Board on 3 June 2014 focused on the acknowledgement of loan planning for 2014, the reports of the committees, the adoption of the sales programme and the corresponding adjustment of the Rules of Procedure of the Management Board necessitated by this, the acknowledgement of the quarterly report for Q1 2014 and the report on the duty to implement safety precautions in the 2013 financial year. The results of the efficiency analysis of the Supervisory Board in accordance with the German Corporate Governance Code were also discussed. The results revealed a highly positive assessment of the work of the Supervisory Board. Regarding the continuous development of Supervisory Board work, measures for which implementation is regularly covered by the Supervisory Board in its meetings were identified.

At the meeting on 28 August 2014 the Supervisory Board acknowledged the Q2 2014 quarterly report. As part of the LEG Group's growth strategy, the Supervisory Board approved the acquisition of around 2,400 units, mainly in the cities of Duisburg, Essen, Krefeld and Witten. Furthermore, the resolution on the adjustment of the Rules of Procedure for the Management Board with regard to the approval requirements for credit facilities and loans was adopted. The Supervisory Board also discussed the long-term incentive goals of the Management Board for performance period 2 (2013 to 2015) and performance period 3 (2014 to 2016) in addition to the authorisation of the Executive Committee to adopt resolutions.

At an extraordinary meeting of the Supervisory Board on 25 September 2014, the Supervisory Board discussed the acquisition of the North Westphalian part of the Vitus Group of around 9,600 units, which were to be sold by Deutsche Annington to LEG. At the same meeting, the Supervisory Board approved that the Management Board increased the share capital of the company by up to EUR 5,296,344 from EUR 52,963,444 to up to EUR 58,259,788 by issuing up to 5,296,344 new registered shares by partial use of the authorised capital 2014 according to section 4.1 of the Articles of Association through a capital increase against cash contribution and under exclusion of the shareholders' subcription rights according to section 4.1c) of the Articles of Association.

The final meeting of the Supervisory Board in the 2014 financial year on 19 November 2014 focused on the acknowledgement of the Q3 2014 quarterly report, Supervisory Board reporting, the approval of business planning for 2015 and the acknowledgement of business planning for the years 2016 to 2019, which was first intensively discussed by the Audit Committee on 18 November 2014. Further key items were the amendment of the Rules of Procedure for the Management Board in connection with the sales programme, which was resolved at the meeting on 25 March 2014, and the issue of a declaration of compliance by the Supervisory Board together with the Management Board in accordance with section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act).

Moreover, at the recommendation of the Audit Committee, it was resolved to amend treasury policy regarding minimum liquidity regulations.

Corporate governance

Working with the Management Board, in November 2014 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 2013 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 Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) was engaged to audit the annual and consolidated financial statements for the 2014 financial year. PwC audited the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report, for the 2013 financial year and issued an unqualified audit opinion for each.

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 2013 financial year in a timely manner and 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. 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 Supervisory Board on 25 March 2014 and at the meeting of the Audit Committee on 24 March 2014, representatives for the auditor explained the results of the audit as a whole and the individual areas of audit focus. They addressed the question of whether there are significant weaknesses in the internal control and risk management system for the accounting process. This was not the case. There were no further objections. The auditors found no facts during their audit that contradict the declaration of compliance. They reported that there were no circumstances giving rise to concern over their impartiality. They also reported on the services that they have rendered in addition to audits of financial statements. The representatives of the auditor and the Management Board answered the questions of the members of the Supervisory Board in detail. Following a thorough examination of all documents by the Supervisory Board, no objections were raised. The Supervisory Board approved the results of the audit.

On 25 March 2014, the Supervisory Board approved the (separate) financial statements for 2013 and the consolidated financial statements for 2013 in accordance with the proposal of the Audit Committee. The annual financial statements for 2013 were therefore adopted and the consolidated financial statements for 2013 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 91,626,758.12 as a dividend.

The amount of EUR 1,732,051.83 for shares not entitled to participate in dividends will be carried forward to new account.

At its meeting on 24 March 2015, after in-depth examination and discussion, the Supervisory Board adopted the annual financial statements for 2014, including the management report, and approved the consolidated financial statements for 2014, including the Group management report, at the recommendation of the Audit Committee.

The Management Board and the Supervisory Board

There were no personnel changes in the Management Board in the 2014 financial year.

On 23 January 2014 Saturea B.V. successfully placed 28.65% of its shares in LEG Immobilien AG on the capital market, and currently holds only around 0.41%. As a result, the three representatives of Saturea B.V. on the Supervisory Board resigned their mandates effective 2 April 2014. The Annual General Meeting on 25 June 2014 approved the reduction of the Supervisory Board from nine to six members at the recommendation of the Management Board and the Supervisory Board.

The Supervisory Board would like to thank the company's shareholders for their support, and extends special thanks to the Management Board and employees of the LEG Group for their work in the 2014 financial year.

Dusseldorf, 24 March 2015

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 102 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 13 May 2013 ("Code").

The Management Board and Supervisory Board have discussed compliance with the recommendations of the Code and, in November 2014, 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 2014 financial year has been printed in the corporate governance declaration (page 102 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 presentations and speeches by the Management Board and the Supervisory 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 are scheduled to end after the Annual General Meeting that resolves the official approval of their actions for the 2017 financial year.

On 23 April 2013, in accordance with item 5.4.1 (2) of the recommendations of the Code, the Supervisory Board stipulated the following goals for its composition, which were amended on 25 March 2014 on account of the intended reduction of the number of Supervisory Board members:

— The Supervisory Board should be composed so that qualified monitoring of the Management Board and its support and advice between equals are guaranteed at all times. Collectively, the members of the Supervisory Board must have the necessary knowledge, abilities and relevant experience to perform their duties properly. The knowledge, abilities and experience of the individual members of the Supervisory Board can and should complement each other so that the Supervisory Board as a whole is able to perform its duties.

— The Supervisory Board should have at least one independent member with expertise in the fields of accounting or auditing within the meaning of section 100 (5) AktG and special knowledge and experience in the application of internal control procedures. At least two members of the Supervisory Board should have special knowledge or expertise in the property business.

— The Supervisory Board should have an appropriate number of members who are independent within the meaning of item 5.4.2 of the Code. In particular, a member of the Supervisory Board is not considered independent within the meaning of this recommendation if he/she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial, and not merely a temporary, conflict of interests. At least five of the members of the Supervisory Board should be independent in the above sense. Furthermore, the Supervisory Board should not include more than two former members of the Management Board.

— Members of the Supervisory Board should not hold an executive or consulting position at a key competitor of the company, unless this is in the interests of the company by way of exception. The Supervisory Board shall endeavour to avoid potential conflicts of interest in future Annual General Meeting proposals for the election of members. If any specific or permanent conflicts of interest arise during the term in office of a member of the Supervisory Board, the recommendations of the Code will be taken into account in its handling.

— 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. Nonetheless, the Supervisory Board of LEG Immobilien AG currently has one member with an international background, which the Supervisory Board expressly welcomes.

— The diversity in the composition of the Supervisory Board is reflected in part by the different career paths, areas of activity and horizons of experience of its members. An appropriate participation of women in the Supervisory Board is intended. The Supervisory Board currently has no female members. In the next scheduled elections to the Supervisory Board, based on the current size of the Supervisory Board, it is intended to include at least one woman in the Supervisory Board. This is subject to the proviso that the other goals for the composition of the Supervisory Board are guaranteed and that appropriately qualified female candidates are available for the office of Supervisory Board member at the relevant time.

— A member of the Supervisory Board who is a member of the management board of another listed company in addition to his or her Supervisory Board mandate at LEG Immobilien AG should not hold more than two other supervisory board mandates at listed companies or in regulatory bodies of companies with similar requirements that do not belong to the group of the respective company in which the management board function is exercised.

— The age regulations stipulated by the Supervisory Board in its Rules of Procedure are taken into account: Generally, only candidates younger than 75 years at the time of the election should be proposed for the Supervisory Board.

— In preparing and adopting Annual General Meeting proposals for the election of Supervisory Board members, the Supervisory Board will always be guided by the interests of the company.

The Supervisory Board feels it has accomplished all these goals with the current composition of the Supervisory Board, barring the medium-term objective of increasing the share of women. In particular, in its own estimation, the Supervisory Board has an appropriate number of independent members; in the opinion of the Supervisory Board, Mr Nathan Brown, Mr Stefan Jütte, Dr Jochen Scharpe and Mr Jürgen Schulte-Laggenbeck currently qualify as independent financial experts.

Directors' dealings

In accordance with section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), the members of the Supervisory Board and the Management Board are required to disclose transactions involving shares of LEG Immobilien AG or related financial instruments immediately if the value of the transactions attributable to the member and related persons reaches or exceeds a total of EUR 5,000 within a calendar year. Three such share transactions were reported to LEG Immobilien AG in the 2014 financial year. Details of these transactions were published as required and can be accessed on the company's website at www.leg-nrw.de/en/investor-relations/corporate-governance/directors-dealings/.

Share programmes and shareholdings

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

As at 31 December 2014, the members of the Management Board and the Supervisory Board held less than 1% of the shares issued by the company.

Transparency

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

Compliance management system

Compliance with the law and the company's internal guidelines 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 refer to page 48 of the annual report for information on the compliance management system.

Declaration in accordance with section 289a HGB

The corporate governance declaration in accordance with section 289a 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. Please see page 102 of the annual report in this respect.

The corporate governance report of LEG Immobilien AG, including the corporate governance declaration in accordance with section 289a HGB, can also be found on the website of LEG Immobilien AG at www.leg-nrw.de.

COMPLIANCE

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its shareholders, tenants, customers, business partners, employees and the public at large. Fully aware of this, the compliance system is designed to take into account legal and ethical principles in our day-to-day business.

The main principles applying both to conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be accessed on the LEG website. As a guideline for proper conduct, it helps employees to make 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 the external ombudsman, who will treat their information confidentially and anonymously if so desired. 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 the Legal and Human Resources central divisions and the external ombudsman advise the Compliance Officer on the design of the compliance system. Permanent benchmarking against other compliance systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance system.

Compliance is assigned to the Audit and Compliance department, which 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.

SUSTAINABILITY / CODE OF CORPORATE SUSTAINABILITY

For years, LEG has combined economic stability with high customer satisfaction, social commitment and ecological standards. Sustainability is both an everyday reality and an integral component of the company's value-oriented strategy.

LEG considers sustainability as a corporate obligation, and implements this in many different ways in respect of its tenants, customers, business partners and employees. As one of the biggest companies in the residential sector in Germany, LEG exercises its responsibility to account for the impact of its corporate activities on society and the environment, and to satisfy the criteria of sustainable business pursuits. Furthermore, the company is constantly analysing trends in sustainability, seeking innovative solutions and advancing the issue constructively and consistently. Locally, regionally, in Germany and abroad, LEG implements and patronises social projects so that people feel safe and well in their apartments and communities.

For tenants – satisfaction in their neighbourhoods

At LEG, neighbourhood management – in addition to the right investments for the right target groups and professional, sustainable property management – is a key component for preserving and enhancing the value of the company. Working in an intensive dialogue with other local participants, LEG initiates measures and provides support in the form of personnel, finance and space.

Furthermore, LEG is the only property company in Germany to offer a comprehensive holiday and leisure programme for its tenants, young and old alike, all year round as part of its neighbourhood and integration management activities. More than 130 events are held each year. Whether for children, young people, adults or more senior citizens – all the activities that LEG organises forge ties between tenants and the company. The feeling of "This is my home, people are doing things for me here" creates a positive emotional connection.

In very real terms, strategic and sustainable neighbourhood management also improves living conditions on estates, helps the residents who get involved and brings different groups together. The cooperation between LEG and local stakeholders is constantly being developed and expanded.

Cohesion within estates is also promoted by way of a strategically oriented letting policy together with letting management. A central task for regional employees and an important instrument for making the portfolio marketable within a neighbourhood is LEG's occupancy management. The aim of this is a balanced mix of tenants in terms of origin, culture, age and social background. When re-letting an apartment, the LEG caretakers make sure that the residential interests of the respective building community are in alignment. Experience has shown that active occupancy management sustainably improves the social structure in city districts and contributes to intercultural understanding. LEG closely considers the needs of its international tenants from 45 nations and mainly communicates in four languages: German, English, Turkish and Russian.

LEG has ties to councils as a result of a comprehensive history and decades of trusting cooperation. As part of a series of events known as "LEG Dialogue", the company invited municipal representatives to Dusseldorf for a joint conference for the first time in mid-2014. As a housing company, LEG does not just generate local value added, it is also a reliable partner to councils and politicians in solving socio-demographic structural changes and in coping with the social challenges. The event series serves to promote and intensify the dialogue with LEG's municipalities. Together, LEG and the councils develop constructive ideas and solutions, especially for the supervision of properties and cooperation in neighbourhood management.

LEG has apartments at around 170 locations, 150 of which in North Rhine-Westphalia, and uses a wide range of measures to solve a variety of challenges. The issues that have already been successfully implemented with councils in past years include the comprehensive modernisation of the Eichkamp estate in Gelsenkirchen and the ongoing modernisation of LEG's MeylantViertel in Dortmund-Wickede.

In MeylantViertel in Dortmund-Wickede, LEG also offers its tenants and interested district residents the pilot project VitalLokal. This is the company's response to current social developments and demographic change. In order to constantly increase the residential satisfaction of tenants in the district, LEG is working with the K&S Group, a company that is one of the leading services providers for inpatient and outpatient care with more than 2,900 employees throughout Germany. In future, this cooperation partner will be offering LEG tenants helpful and fairly priced services, some of them even free of charge, for home and social living. LEG's tenants in Wickede are the first to be able to take advantage of the benefits of various delivery services, such as for food, outpatient care, mobility assistance, comprehensive advice and free events. The VitalLokal concept is set to be implemented at other LEG locations.

In collaboration with the cities and councils, the company also offers many refugees a new home, thereby contributing to a culture of welcoming. In Dortmund, for example, LEG has given a total of 133 people in 45 apartments the opportunity to live in the privacy of a home instead of staying in transitional or emergency accommodations. Apartments have also already been provided to refugees in Monheim in cooperation with the town. Constructive talks relating to this subject are underway in a number of other cities. Naturally this also includes comprehensive aid for refugees – from language courses through to assistance in dealing with public authorities.

LEG is constantly aware of its social responsibility. Issues such as neighbourhood and occupancy management, cooperation with social services, schools and public institutions, sponsoring benevolent associations and initiatives and assisting in the integration of foreign citizens are therefore matters of great importance. One project that serves as an example of this is the "Cookbook of Cultures". To promote neighbourly interaction and the assimilation of people from a wide range of countries and cultural groups, locals in Plettenberg created the district club in the year 2011, which LEG helps to maintain and run. The project "Cooking Brings People Together" developed from the work in the district club and takes place there once a month. Eleven women took part in this in 2014. There were plenty of traditional dishes from different countries: China, Kazakhstan, the Philippines, Rwanda, Turkey, Turkmenistan and Germany. The idea of compiling all the recipes in one cookbook was obvious. With the support of LEG, which sponsored the design and printing of the cookbook in addition to a donation for the project, the recipe collection was completed at the end of 2014. It is given as welcome gift to new LEG tenants in Eschen.

In the summer of 2014, six children of LEG tenants from Dorsten and Essen sailed into the sun with the help of LEG. LEG also supported one of the ships for the association sunshine4kids. There were more than 100 children and young people in total on board. The children on the therapy boats either themselves suffer from an illness or have a sick brother or sister who needs their parents' full attention. Others have lost their mother or father. Sunshine4kids offers these children a chance to get away from their often stressful daily routine, to gather strength and inspiration for a hopeful future. In the middle of July 2014, the children embarked on a voyage together with experienced sailors, psychologists and doctors. Their journey took them from Fehmarn to Travemuende to perform the sunshine4kids Musical at the 125th Travemünder Woche event in front of 15,000 spectators.

Furthermore, LEG has been cooperating for a long time with a number of associations and institutions, such as the German Red Cross: Fifteen years ago the German Red Cross in Bielefeld, created the "Intercultural Work Project". The leisure club for children and young people offers a broad range – from excursions to self-defence and climbing classes to help with homework. The staff also arrange a lively programme during the school holidays. In May 2014 LEG congratulated the project's work with a tenant festival. Together with the club, employees of the LEG customer centre in Bielefeld organised the summer fair for the tenants of the LEG complex. It is important to LEG to support institutions like the Intercultural Work Project that can intelligently and successfully network the company.

In addition, the company is constantly providing its support for sports activities, such as the LEG Arminia Football School, which has had a successful year. Around 500 children took part in the camps in 2014. LEG also patronises the integrative sports association at SV Blau-Weiß Aasee in Muenster, where people with and without disabilities take part in sports together.

The independent LEG NRW Tenant Foundation supports benevolent and charitable projects – for individuals and groups alike. The aim is to provide individual assistance for tenants who find themselves in difficulties, such as sudden disabilities or financial straits. The foundation also supports integrative or intercultural events and projects, thereby contributing to an international attitude and tolerance in all cultural areas and understanding among individuals from various cultural backgrounds. In 2014, the foundation provided around EUR 130,000 for tenants – for purposes ranging from accessible bathrooms and essential electronic appliances through to furniture and clothing as well as for intercultural/integrative events in LEG's neighbourhoods.

For the environment – sustainable management and energy renovation

Climate protection and the energy policy turnaround are much debated issues. LEG modernises its properties with sound judgement. In 2014 the company invested a total of around EUR 17.2 million in measures relating to increasing energy efficiency. For example, roughly EUR 1.3 million went towards the maintenance and energy modernisation of 66 apartments at the Muenster location. In future, well over 100 residents in eleven buildings will benefit from comprehensive renovation work. In Arnsberg, too, the company spent more than EUR 1.2 million on renovating residential properties from an energy efficiency perspective. LEG invested around EUR 840,000 in energy-saving renovations in Duisburg in 2014. These and other modernisation measures will ensure the future viability of LEG's portfolio and contribute to greater quality of living for tenants. The renovation measures also translate into a significant reduction in CO_2 emissions for the respective buildings. Thus, tenants' annual heating requirements have been greatly reduced, costs have been saved and the environment has been protected.

Between June and November 2014, LEG invested approximately EUR 1.8 million in buildings in the Meylant district in Dortmund-Wickede. The residents of 144 apartments will benefit from the energy renovation of the buildings from around 1965. Since 2008 LEG has spent EUR 11.3 million overall on the Wickede location alone, modernising a total of 656 apartments.

Low-cost, locally produced and environmentally friendly electricity has been available since 2014: Four state-of-the-art combined heat and power (CHP) systems have gone on line as part of the successful cooperative project between LEG and RWE "LEG Neighbourhood Power on the Fritz Erler Estate" in Kreuztal. These CHP systems installed by RWE are highly efficient and supplement the existing supply sourced from several heating plants. The new product was presented to tenants for the first time as part of a big district festival at the end of August 2014. Since then, tenants in around 710 apartments have been able to order the low-cost power and will save up to EUR 100 per year on their electricity bills in future. One of the reasons for the low price is that the power is generated at the same place that it is utilised. Another advantage is the modern, environmentally friendly CHP technology. The estate is the first complex to run entirely on its own power, and therefore a trailblazer for the whole of Germany.

There are plans to add further CHP locations to generate low-cost, environmentally-aware electricity for tenants. LEG is considering bundling these measures in a separate company. This would include optimising energy management in LEG portfolios and running heating systems more efficiently, with the possibility of modernising or replacing them as well. Energy procurement as well as metering and other services have been optimised too. The goal here is the sustainable use of resources. Both consumption and CO_2 emissions can be reduced in this way. LEG is therefore making a valuable contribution to climate policy targets at an EU, national and state level.

For rebuilding – international development aid

Since 2010 LEG has been supporting sustainability projects abroad – together with DESWOS, the German Development Assistance Association for Social Housing.

Work is currently underway to build 124 houses in the City of Tanauan in the Philippines, which was hit especially hard by Typhoon Haiyan. The reconstruction project is a systematic continuation of LEG's collaboration with DESWOS. In India the two have already together built an LEG village with 120 homes for those known as untouchables.

Typhoon Haiyan reached the coast of the Philippines in November 2013 and left behind a trail of devastation in a country already marked by poverty. Even today, the families affected still lack the bare necessities. As part of the project on the Philippines, 124 especially needy families were selected from village presidents and priests in the region to have the construction of their homes financed by LEG. Specifically, LEG is funding the construction of 13 homes as part of the "Reconstruction Aid for the Philippines" project. The idea behind the concept is that the families themselves take the initiative and participate in the project. This contribution – such as a family member helping with construction work – preserves people's independence and dignity; it gives them a connection to their new home so that they can better identify with it.

As the Philippines now rank second in terms of countries most threatened by natural disasters, reconstruction with improved building standards is important. "Building back better" is the motto, which also demands more stable materials and new forms of construction. For example, homes with a floor area of 30 sqm each will be built on concrete stilts in future to keep them safe from flooding. In addition, roof shapes have been optimised, minimising their area and thereby reducing suction forces. Walls will now be made out of stable brickwork, and escape routes are being designed so that rescue workers can reach the new settlements more quickly.

For employees – expanding health management

The goal of the extensive and systematically structured, sustainable health management is to promote the health and wellbeing of LEG employees both privately and in the workplace. Employees will continue to benefit from this in 2015 with measures that have proven successful in the past and the establishment of new ones.

Health management was expanded further in 2014. LEG offers its employees sustainable options for improving their health and work/life balance. The anti-stress workshops, which were open to LEG teams as well as individual employees, were especially successful. Employees were also happy to take advantage of services relating to child and senior citizen support, home help and life coaching.

As a feature of health management, there was a fruit campaign again in the winter months: A third-party fruit supplier brought fruit to the administrative buildings and branches once a week. Since July 2014, employees have also had the option of receiving a weekly massage in the workplace from a trained physiotherapist. A workshop was designed specifically for the target group of caretakers in 2014 to increase awareness of health issues among men in particular, and to give them helpful tips for their day-to-day work.

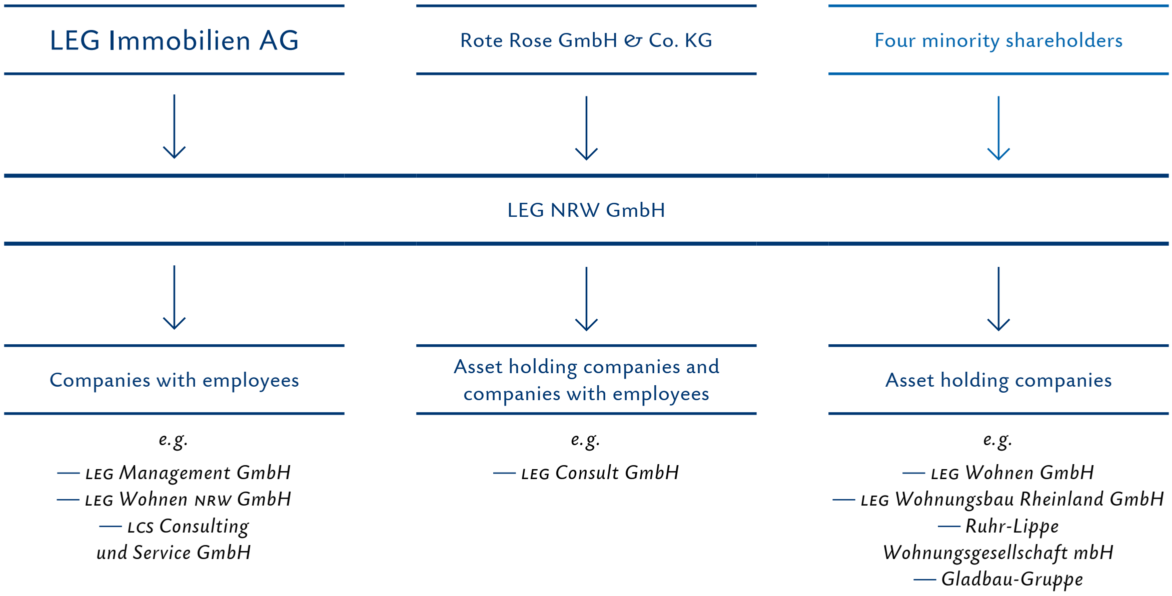
For the first time, 44 LEG employees took part in the RUN4iDEAS corporate run to show their social commitment. In June 2014 they ran a course of over six kilometres in aid of "ELFMETERstiftung", a foundation dedicated to providing a second chance for children and young people with spinal cord injuries, and the SORRISO Foundation, which also works to improve living situations for disadvantaged children and young people in countries like Brazil. The Dusseldorf corporate run is known for its charitable nature. Every year the organisers support selected charity partners with a share of donations taken from entry fees determined in advance.

3

THREE

MANAGEMENT REPORT

F3 — LEG Group structure



BASIC INFORMATION ABOUT THE GROUP

Group structure

LEG Immobilien AG was formed in 2013 following the transformation of LEG Immobilien GmbH. The change in legal form was effected by notarisation by way of a shareholder resolution on 2 January 2013, and entered in the commercial register on 11 January 2013.

Business activities and strategy

The focused business model of LEG is geared towards the management and development of its own residential property portfolio. This also includes a targeted expansion of the property portfolio through acquisitions with high synergy potential. The business model is supplemented by the selective expansion of tenant-oriented value-added services. LEG is one of the leading managers of residential property in Germany with around 110,000 residential units. LEG's product range meets the high level of demand for affordable housing, and is tailored to the steadily rising number of single or two-person households and to migrants entering Germany. The company's regional focus is on the North Rhine-Westphalia (NRW) metropolitan region, Germany's economic heavyweight and most populous federal state. LEG benefits from the positive development in the fundamental data of this region, combined with constant growth in demand for housing and high population density. The regional focus of the portfolio means a sustainable competitive edge in terms of the results of the portfolio management and operating efficiency.

LEG's growth- and customer-focused business model applies a sustainable, value-oriented approach that reconciles shareholder and tenant interests.

The sustainable growth strategy comprises organic growth with the existing residential property portfolio, including the selective expansion of tenant-oriented services, and growth through value-enhancing acquisitions.

Organic growth

LEG's diversified property portfolio has consistently achieved rental growth in excess of the market average in recent years (up 2.4% p.a. since 2009). Accelerated rental growth was achieved in 2014, while at the same time like-for-like vacancies were reduced to 2.7%. These figures were achieved on the basis of a moderate investment strategy with investments of around EUR 14 per square metre, taking into account the interests of tenants and shareholders. These results are proof of LEG's management expertise, the quality of its property portfolio and the attractiveness of its markets.

This stable rental growth is set to continue over the coming years as well. Together with pronounced cost discipline, further structural and process optimisation and secure long-term financing at favourable conditions, this will lead to strong organic earnings growth.

LEG's organic rental growth is based on a diversified mix of growth drivers. This emphasises the highly defensive overall nature of its growth profile. In its free financed portfolio, changes in market rent can be implemented through regular rent index adjustments and when properties are re-let. In the rent-restricted portfolio, inflationary developments are passed on to tenants directly every three years in the form of regular adjustments to the cost of rent. Over the coming years, rent control will gradually expire for some of this portfolio. This provides the corresponding leeway for rent adjustments on properties where the rent, in some cases, is significantly below market levels.

Taking into account the specific market conditions, LEG makes selective, value-enhancing modernisation investments in its portfolio that are subject to strictly defined return criteria.

A basic requirement for a positive development in management results is high tenant satisfaction, which also is reflected by low tenant fluctuation. The LEG model achieves this by relying on direct proximity to customers and a strong service focus with personal points of contact at local customer centres and tenant offices.

External growth

LEG's management platform has the potential to leverage economies of scale by acquiring portfolios and thereby raising the operating margin. The focus is on the company's core region of NRW, where the highest cost synergies can be generated. A strong balance sheet, a broad-based presence in its core markets with around 170 locations and the resulting market expertise and quick decision-making processes are LEG's key competitive advantages. LEG applies a selective, value-oriented acquisition strategy that is geared towards clear financial targets for increasing its leading operating margins and the FFO I yield, and to the development of net asset value. Its goal is to acquire at least 5,000 residential units per year in the years ahead. In the past two years, LEG acquired and successfully integrated portfolios of different sizes with around 19,000 units at attractive returns. LEG's management expertise therefore allowed it to create additional value-added for shareholders and tenants.

Expansion of tenant-oriented services

LEG is also aiming to leverage its customer base of around 300,000 tenants for the selective expansion of tenant-oriented services. The establishment of multimedia services with clear value added for tenants in the form of a significantly improved product range at favourable conditions is one example of how tenant and shareholder interests can be reconciled. The further expansion of tenant-oriented services is under preparation. In particular, LEG feels that the area of providing tenants' heating and power offers highly promising starting points.

Defensive financing strategy and strong balance sheet

One of the key elements of LEG's business model is the security provided by a defensive balance sheet structure and a balanced, long-term financing structure at favourable conditions.

A strong balance sheet supports the defensive nature of the business model in the interests of shareholders, tenants, employees and business partners, while also securing the company's long-term growth potential. A low LTV of 47.3%, an average remaining term on loans of more than 11 years after the conclusion of the forthcoming refinancing and expected average financing costs of less than 2.3% reflect LEG's defensive risk profile and its strong position on the financing market.

Group management system

The business strategy of LEG is geared towards sustainably increasing its enterprise value. The Group management system is systematically focused on supporting this value-oriented corporate strategy.

As in the previous year, the management system of the LEG Group is 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 financial year is revised and updated at regular intervals on the basis of 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 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 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 this management cycle.

The overall system of key performance indicators is structured on a segment-specific basis to ensure the targeted management of individual areas. Within the segments, there is a target definition and achievement system that stipulates responsibility for all value drivers within the organisation. The target system affects the focus of the individual levels of hierarchy.

The essential financial key performance indicator for Group management is FFO. Further key figures relevant to the real estate 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, are also subject to special monitoring, and there is regular benchmarking against the corresponding figures for competitors.

In the Residential segment, LEG focuses in particular on further improving the performance indicators in its operating business. Key indicators include rent per sqm 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 Other segment primarily consists of development business, which is being discontinued, and the central divisions that perform general Group functions. This segment accounts for only around 1% of the Group's assets. In addition to the inventories that are yet to be sold, the key components of the planning and management system for this segment are staff and non-staff operating costs in particular. Detailed budgets for the individual cost positions are discussed and agreed with the respective cost centre managers.

The following key figures are not part of the Group management but are subject to monitoring on a regular basis:

In addition, 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 central Finance and Corporate Finance divisions, which are responsible for controlling, ensure the optimisation of the LEG Group's liquidity position while taking into account market developments. Based on current forecast figures and risk and opportunity reports, various 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 28 August 2018 is taken into account. All of the protective provisions, such as minimum investment, are incorporated into management processes and included in regular standard reporting.

ECONOMIC REPORT

General economic conditions

Slight growth in Germany

After a strong start, the economy in Germany diminished significantly as 2014 progressed. Industrial production was slowed by dwindling domestic and international orders. Furthermore, geopolitical tension led to uncertainty and restraint on investments. However, one positive driver was private consumer spending, which benefited from rising income. According to the Federal Statistical Office, real gross domestic product (GDP) grew by +1.6% over the year as a whole. The German economy therefore again outperformed the euro area in general.

The weak phase that has been ongoing since the summer of 2014 is set to continue in the first quarter of 2015 as well. But as the economy in the eurozone and world trade keep on improving, positive economic stimulus is expected to come from exports. Thus, according to the Ifo Business Climate Index, forecasts for the first half of the year recently rose again. However, a requirement for this is that the recovery in the eurozone is still propped up by economic policy and that the geopolitical crises do not worsen. Overall, the Bundesbank is projecting GDP growth of +1.0% in 2015 for Germany. The GDP of the euro area is also set to benefit from the positive stimulus of rising international and domestic demand. The EU Commission is forecasting growth of +1.1% for the eurozone in 2015 after just +0.8% in 2014.

Employment in Germany continued the growth trend of recent years. In 2014 the number of people in work was up by 0.8% and passed the 43 million mark for the first time in October 2014. This positive trend also benefited from immigration from abroad. The Bundesbank is anticipating total net immigration of 560,000 persons for 2014. The unemployment rate has continued to decline as well. It was down from 6.9% to 6.7% year-on-year. The Bundesbank expects it to remain at this level in 2015. The ongoing positive development on the labour market was also clearly seen in NRW. The unemployment rate in December 2014 was 7.8% after 8.1% at the end of 2013.

With employment on the rise and as a result of new collective agreements, private households also enjoyed higher income. According to Bundesbank calculations, gross wages climbed by 2.7% in Germany in 2014, significantly ahead of the rate of inflation at 0.9%. Gross wages are forecast to rise by the same amount in 2015.

Overall, the general economic conditions positively affected demand for housing in Germany and thereby LEG's business model as well.

NRW residential market

Positive trend on residential markets with downturn in top price segment

The NRW residential market is still showing positive trends in the development of asking rents and property prices. 53 out of 54 cities and districts are reporting a positive underlying trend in asking rents. Overall, however, there has been a downturn in the growth momentum of the last three years. On average, asking rents climbed by 1.7% to EUR 6.15 per sqm (previous year: 5.6%). In the higher-priced segment asking rents were down even in good locations.[1] Purchase prices continued their dynamic trend for owner-occupied apartments and there were slight increases in prices for apartment buildings.

North Rhine-Westphalia's appeal as a place to live is intact. According to the latest IT.NRW figures, the population count changed only minimally as against the previous year and is still around 17.6 million.[2] The positive net immigration figure remained at a stable level and is contributing to a slight increase in the number of private households.[3] The population of North Rhine-Westphalia has increased overall in the past three years as a result of migrants from abroad. The population trend is therefore more favourable than was often assumed in earlier market forecasts. Comparing the 2002 population projections with those from 2012, significant regional differences can be observed. In particular, the Ruhr area cities Dortmund and Essen as well as the cities of Krefeld and Moenchengladbach, have developed more positively.[4]

Rent development

After the previous year's rent increases, some of them significant, the supply situation in North Rhine-Westphalia has normalised again. The growth rates in asking rents were considerably more moderate, though – except for Bottrop – higher rents than in the previous year were achieved in all districts and cities. Price corrections mainly occurred for high-quality areas and apartments. After increases in the previous year ranging from 15% to more than 20% in some cases, the upper segment saw declines in the Ruhr area locations of Essen (down 7.3%) and Bochum (down 3.4%), and – surprisingly – in Dusseldorf (down 6.8%) as well.

Meanwhile the positive overall trend in Muenster continued: while it fell just short of the EUR 9 mark, the median was up again by 4% on the previous year. At EUR 9.56 (up 5.2%), Cologne increased its lead over Dusseldorf (EUR 9.23; up 2.6%), followed by Muenster and Bonn at EUR 8.75 (up 1.4%). In addition to the traditionally strong university cities of Aachen (up 4.6%) and Bielefeld (4.2%), Dortmund (up 4.1%) also experienced stable growth across all segments.

Outside the conurbations and the attractive mid-sized cities, price trends were moderate with minor growth rates of up to 3.5%. The growing appeal of the markets in the east of Westphalia is becoming clearer: the districts of Paderborn (up 6.6%), Guetersloh (up 4.9%) and Lippe (up 4.8%) increased significantly.

Low-cost housing, LEG's core segment, continued to become more expensive: prices were down year-on-year only in Gelsenkirchen (by 3.6%) and Bochum (by 0.4%). Gelsenkirchen is therefore still the most affordable place to live in the lower segment, with average asking rents of EUR 3.73. Average rents of less than EUR 5 (cross-segment medians) were seen in the Hoexter District (EUR 4.29), Hochsauerlandkreis (EUR 4.74) and Hagen (EUR 4.92).

With average rents of EUR 5.07 per sqm as at the end of 2014, LEG is still one of the biggest housing providers in the lower and mid-market segment.

At the end of 2013 there were 613,900 rent-controlled apartments in North Rhine-Westphalia. This figure was therefore down by around 23,000 units (–3.6%) as against the previous year. Around 499,000 of these units are social rental apartments in multi-story residential buildings. With around 4.8 million multi-story residences in NRW, only around 10.4% of all rented accommodation is still rent-restricted.[5]

There has been a turnaround in figures for completed buildings, as shown by NRW.Bank in the Housing Market Report NRW 2014. Approximately 40,000 apartments in residential and non-residential buildings were completed in the past year. While 4.3% more multi-story residence apartments were completed than in the previous year, there was a slight decline in single- and two-person apartments.[6] However, new construction was largely limited to the upper price segment.

Vacancy development

As in previous years, demand for housing in NRW was characterised by population growth due to migration and a disproportionate rise in the number of households, driven by the growth in single- and two-person households.

The average vacancy rate in NRW – based on active vacancies (real rentable living area) – was down by a further ten basis points as against the previous year at 3.2%, and was therefore only slightly above the national average of 3.1%.[7]

In addition to migration, mainly younger households relocating for training or professional reasons has 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 Muenster are showing indications of a housing shortage, reflected in extremely low vacancy rates in some cases. As a result of the continuing economic and cultural appeal of these cities, vacancies were reduced significantly between 2009 and 2013: Cologne from 2.2% to 1.2%, Dusseldorf from 2.5% to 1.6%, Bonn from 2.1% to 1.2% and Muenster even from 1.7% to 0.7%.[8] Muenster therefore ranks among the cities with the lowest vacancy rates in all of Germany.[9]

Even outside the classic growth centres, the residential markets in NRW benefited from the general trend and reduced or at least stabilised their vacancies. Examples of this are Hochsauerlandkreis, the Soest District and the cities of Krefeld and Remscheid.

Prices for owner-occupied apartments continue to rise strongly in growth centres

Driven by the favourable general conditions, purchase prices for owner-occupied apartments in the major Rhine cities of Dusseldorf, Cologne and Bonn again rose by double digits across all segments. While a buyer in Dusseldorf now has to pay more than EUR 2,600 per sqm (up 15.2%), prices were up by 12.9% in Cologne (EUR 2,355/sqm) and 17.6% in Bonn (EUR 2,150/sqm).[10] The price surge in Muenster appears to be slowing somewhat: the rise to EUR 2,278 per sqm (up 4.7%) was comparatively moderate. The top four locations in the apartment building segment have moved closer together: median prices are between EUR 1,680 per sqm (Bonn: up 9.4%) and EUR 1,745 per sqm (Cologne: up 6.7%). In this segment as well, Muenster – at least for now – seems to have hit a price ceiling (up 0.6%). In the apartment building segment, only Ruhr area cities (Dortmund, Bochum, Essen and Gelsenkirchen) and Wuppertal were below the average NRW price (EUR 820/sqm) – based on the top 12 major cities. The growing appeal of Dortmund, which is already evidenced by the rise in rent, is also reflected in the purchase prices for owner-occupied apartments (up 7.8%) and apartment buildings (up 7.4%).

[1] cf. CBRE: LEG Housing Market Report NRW 2014
[2] cf. IT.NRW
[3] cf. IT.NRW
[4] cf. NRW.Bank: Housing Market Report NRW 2014
[5] cf. NRW.Bank: Rent-restricted Housing Portfolio NRW 2013
[6] cf. NRW.Bank: Housing Market Report NRW 2014
[7] cf. CBRE-empirica Vacancy Index 2013
[8] cf. CBRE-empirica Vacancy Index 2013
[9] cf. CBRE-empirica: Press release on Vacancy Index 2013
[10] CBRE: LEG Housing Market Report NRW 2014

Transaction market

The residential property segment was again one of the most popular investment targets on the German property market in 2014, which meant that trading in residential portfolios remained highly dynamic. Throughout Germany in 2014, around EUR 13.3 billion was invested in residential packages and residential facilities of at least 50 units. The transaction volume was therefore once more at a very high level and only just shy of the previous year's figure.

According to the CBRE, more than 226,000 residential units (up 4% year-on-year) with a total of almost 13.7 million sqm in residential space were traded in 232 registered portfolio transactions (up 15%) over the course of 2014. This means an average purchase price of EUR 970 per sqm. This figure is slightly less than in the previous year and points to greater investment activity at B locations.

Above all, the investment market was dominated by the sale of very large residential packages to listed housing companies in 2014. In the past year, five major portfolios – including the Vitus portfolio, the Dewag portfolio and the DGAG portfolio – with almost 81,000 residential units in total and worth EUR 4.2 billion were sold.

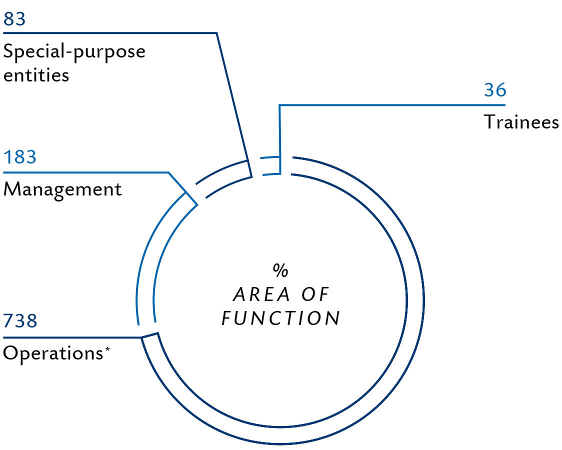
The transaction market in North Rhine-Westphalia experienced a further significant revival. Around 50,000 residential units were traded for approximately EUR 2.5 billion in portfolio transactions in North Rhine-Westphalia in 2014. Together with Berlin, North Rhine-Westphalia is therefore one of the most in-demand investment locations in the residential segment, accounting for around 19% of the total German transaction volume. Major transactions included the sale of the Vitus portfolio to Deutsche Annington, of which 9,600 residential units were subsequently passed on to LEG, and the sale of a sub-portfolio of around 5,000 residential units by Corestate to GAGFAH.

T7 – LEG employees as of 31 December

	2014	*2013*	*Change*
TOTAL	**1,040**	**915**	**+125**
male in %	52	51	
female in %	48	49	
FTEs (excluding Management Board members and trainees)	855	749	+106
Fluctuation rate in %	4.1	3.4	+70bp
Absence rate in %	4.0	5.1	–110bp
Average age in years	46.0	46.7	–0.7

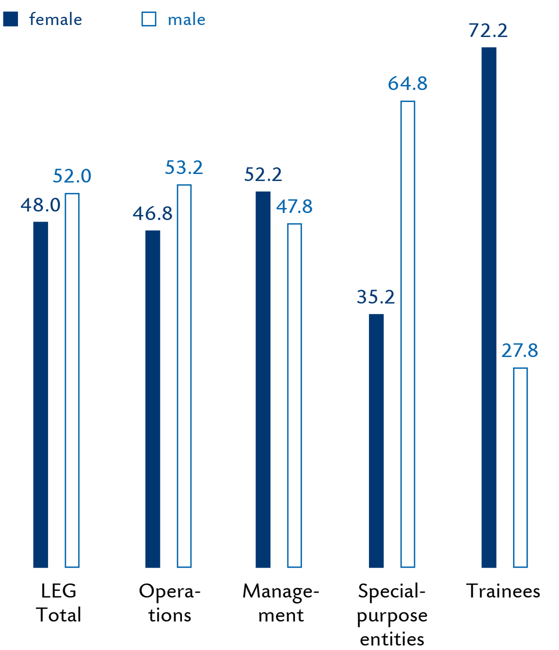
bp = basis points

F4 – Employee distribution by functional area



* incl. Vitus companies

F5 – Employee distribution by gender in %



Employees

"People make the difference" – the motivation and qualifications of our employees are a crucial factor in LEG's success. That is why ensuring employee satisfaction, commitment and performance is a key objective of our HR work.

There are major challenges to HR management owing to demographic and technological shifts, globalisation and changing values. We manage these challenges with contemporary and innovative HR instruments that ensure and develop LEG's appeal and capabilities as an employer in the long term. A key element in this regard is the benchmark study "Great Place to Work", in which we successfully took part for the first time in 2014.

Employees

As at the end of 2014, LEG had a total of 1,040 employees (2013: 915), including 36 trainees (2013: 36). Adjusted for members of the Management Board, managers and trainees, the number of full-time equivalents (FTE) was 854.7 (2013: 748.6 FTE). In the course of the acquisition of further residential units, the workforce was up by 112 (89.3 FTE) as at the end of the year. As part of a transfer of undertakings carried out on 1 January 2015, 41 people (56.9 FTE) have left LEG.

Training

58% of LEG's employees participated in training measures in 2014. Each employee completed an average of 1.9 seminar days. LEG's qualification costs amounted to around EUR 708,000. This corresponds to EUR 770 per employee, significantly above the industry average (approx. EUR 384 per employee per year).

Work-life balance

A good work-life balance is central to ensuring the satisfaction and performance of our employees. In addition to prevention measures such as massages in the workplace and the provision of free fruit, LEG's operational health management concept therefore also includes the LEG Family Service, which supports employees in ensuring an optimum balance between their professional and private lives. Particular highlights in 2014 were participation in the corporate run RUN4iDEAS and health workshops for our caretakers.

Management development

In 2014, all managers (level II) were given the option to undertake leadership coaching with an external coach in order to optimise their own leadership and management skills. This was based on the expanded management evaluation of the previous year. Other milestones were the team event "Becoming a Top Team Together" (Management Board and level II managers), held again this year, and the "Focus LEG: A Great Place to Work" event for all managers.

Talent management

Talent management is an important factor in ensuring employer appeal, employee loyalty and enhancement of the management culture. Our talent management is consistently being enhanced in line with these requirements. For instance, we also adapt our instruments for identifying and developing potential with a view to fostering the development of our employees through continuous feedback. At the same time, by highlighting flexible and individual development channels ("mosaic career"), the various ambitions of our high-potential staff are taken into account and all measures for further development are geared towards them.

Trainees

As at 31 December 2014, 36 LEG young people were being trained as estate agents at LEG. Four of these trainees are taking a property-related degree in tandem with their training as part of LEG's scheme for nurturing outstanding talent. LEG concluded contracts with all trainees who expressed a desire to join the company (91.6%). To foster independence and awareness of responsibility from the outset, LEG's trainees are involved in responsible LEG projects right from the start of their training.

New employees

In conjunction with the completed acquisitions, new employees were recruited in order to ensure that the acquired portfolios are managed appropriately. LEG's appeal as an employer ensured that new employees were recruited quickly.

Current business activities

The positive development in operating activities continued in the reporting year as well. FFO I, the essential financial key performance indicator for Group management, increased by EUR 22.4 million from EUR 141.2 million in the 2013 financial year to EUR 163.6 million in the 2014 financial year. The key drivers behind this earnings increase were a clearly positive trend in existing rents, further acquisitions of residential portfolios, initial income from tenant-oriented services and a reduction in average financing costs.

As at 31 December 2014, LEG Immobilien AG's property portfolio consisted of 106,961 apartments, 1,059 commercial units and 26,695 garages and parking spaces. The table below shows the key portfolio data as compared to the previous year. Table T8

The change in the portfolio is essentially due to the acquisition of five residential portfolios with around 13,100 units, which were transferred in 2014. This was offset by the moderate disposal of approximately 390 residential units. These properties were residual holdings from former tenant privatisation activities or individual properties in peripheral regions that were sold in the interests of portfolio optimisation. This is in line with LEG's selective sales strategy, which will continue to a lesser extent moving ahead.

The acquisitions were portfolios with locations in core LEG markets with correspondingly high synergy potential. These are concentrated in the cities of Moenchengladbach, Leverkusen, Wuppertal, Hagen and Ruhr area towns. To a lesser extent, the acquisition packages also included properties in the major Rhine cities of Cologne and Dusseldorf. In addition to achieving cost synergies by generating economies of scale, there is additional potential for increasing value by reducing vacancies and adjusting rents in line with market levels.

The portfolios acquired have already been successfully integrated in the Group's systems and processes, and the rent development in the first few months was both positive and in line with planning.

T8 – Development of the real estate portfolio

Key figure	*Usage*	**31.12.2014**	*31.12.2013*	*Change*	*%*
Number residential units	Residential	106,961	94,311	12,650	13.4
	Commercial	1,059	1,031	28	2.7
	TOTAL RESIDENTIAL AND COMMERCIAL	**108,020**	**95,342**	**12,678**	**13.3**
	Parking	26,695	22,903	3,792	16.6
	TOTAL	**134,715**	**118,245**	**16,470**	**13.9**
Lettable area in sqm	Residential	6,854,678	6,033,610	821,067	13.6
	Commercial	195,572	197,613	−2,041	−1.0
	TOTAL RESIDENTIAL AND COMMERCIAL	**7,050,249**	**6,231,223**	**819,026**	**13.1**
In-place rent in € / sqm	Residential	5.07	4.96	0.11	2.3
	Commercial	7.28	7.51	−0.23	−3.0
	TOTAL RESIDENTIAL AND COMMERCIAL	**5.13**	**5.04**	**0.10**	**1.9**
Number of vacancies	Residential	2,975	2,780	195	7.0
	Commercial	195	158	37	23.4
	TOTAL RESIDENTIAL AND COMMERCIAL	**3,170**	**2,938**	**232**	**7.9**
Vacancy in %	Residential	2.8	2.9	−0.2	−5.6
	Commercial	18.4	15.4	3.0	19.8
	TOTAL RESIDENTIAL AND COMMERCIAL	**2.9**	3.1	−0.1	−4.8

Development of the significant operating value drivers and key performance indicators:

Rent per square metre on a like-for-like basis, a key driver for organic growth, rose by 3.0% year on year. In absolute terms, rent per square metre was EUR 5.07 as at 31 December 2014. In the free-financed sector, the like-for-like ratio even reached 3.4%, while the rent for rent-restricted apartments, which still accounted for around 33.5% of the total portfolio as at the end of the year, was increased by 2.4% in the reporting year. The positive development in rent was maintained across all market segments.

This positive trend can also be seen in vacancies: The like-for-like vacancy rate for all residential units of the LEG Group decreased further in the 2014 financial year from 2.9% to 2.7%. Absolute vacancies in the LEG residential portfolio were 2.8% as at 31 December 2014. The reduction to 2,975 vacant units was achieved despite the fact that the above acquisitions brought around 430 additional vacancies, and therefore had an above-average vacancy rate.

This result was achieved even though not inconsiderable resources were additionally tied up for the process of integrating the acquisition portfolios. The systematic specialisation of employees, targeted investments geared to customer wishes and the individual vacancy concepts for each economic unit all contributed greatly to this successful neighbourhood management. In the past financial year, the LEG Group once again implemented selective and needs-driven investments in its portfolio, in compliance with and taking into account the provisions of the social charter – and thereby held itself to its own high standards as a long-term property manager. Investment in the portfolio increased by around EUR 3.6 million as against the previous year to EUR 89.1 million. Average investment per square metre of living and usable area amounted to EUR 13.81 and was therefore effectively stable compared with the previous year. It is still significantly higher than the amount of EUR 12.50/sqm stipulated in the social charter. At 48.7%, the capitalisation rate and therefore the share of value-enhancing measures was roughly on par with the previous year's level (51.5%) in line with planning.

At the end of 2013, in order to provide tenants with an extensive multimedia offering at favourable conditions, a framework agreement was concluded with the cable network operator Unitymedia and, at the same time, two new service companies were created in the LEG Group. The implementation in the past year went very successfully and, as at the end of 2014, more than 82,000 residential units were already utilising this offer, which entailed the first relevant contributions to earnings.

Overall, all the significant operational value drivers developed positively and contributed to the increase in operating earnings. Current business activities developed in line with planning in relation to the core portfolio, and the goals set were exceeded due to the good performance in acquisitions. Further details can be found in the forecast report.

Financing

Acquisition financing aids further reduction of average interest costs

Long-term financing agreements with a volume of approximately EUR 111 million were concluded for newly acquired property portfolios in 2014. Favourable conditions were achieved for these financing agreements with banks that already count among LEG's established financing partners. The average term of the agreements is 9.6 years with average interest rates of 2.12%. There is also a credit facility of EUR 100 million for the flexible interim financing of acquisition portfolios.

Core bank structure still balanced

Around 80.7% of the LEG Group's total loan liabilities relate to bank loans and 19.3% to subsidised loans from NRW.Bank. The loan liabilities with banks are mainly distributed among around 13 banks, primarily in the mortgage and state bank (landesbank) sector. In addition to the criterion of market conditions, a balanced structure in the credit portfolio is also a key criterion in selecting financing partners. As in the financing strategy to date, the maximum share of a single bank in the total credit portfolio is capped at around 25% to avoid an excessive dependence on any financing partner.

Balanced, long-term maturity profile

In line with the long-term nature of its basic business, LEG has established a balanced, long-term financing structure to ensure its defensive risk profile. Financing is arranged on the basis of medium- and long-term agreements with terms of up to ten years. Taking into account the long-term subsidised loans, the financing portfolio as a whole has an average maturity of approximately 9.8 years. The loans are primarily secured by the real collateral of the properties and other collateral usually provided for property portfolio loans.

Interest rate hedging and average financing costs

The financing agreements, befitting the long-term outlook of the company, are around 94% hedged by way of 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 derivatives can only be used 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. As at the end of the reporting period, the average cost of borrowed capital including the convertible bond amounted to 2.84%, marking a further reduction as against the previous year (2013: 3.2%).

Covenants

Credit agreements typically contain regulations on compliance with defined financial covenants that the borrower must comply with throughout the term of agreements. A violation of covenants can result in the borrower's agreement being cancelled and 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 material financial indicators are:

— loan-to-value (LTV; ratio of the loan volume to the market value of the portfolio)
— debt service coverage ratio (DSCR; ratio of net rental income after management to debt service)
— debt-to-rent ratio (DRR; ratio of the loan volume to rental income)

The covenants agreed for the loans are still within the following ranges:

— LTV 65.0% – 82.5%
— DSCR 102.5% – 200.0%
— DRR 786% – 1,250%

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. To date, LEG has complied with the covenants of its loan agreements in full. No violations are to be expected at present or in the future.

Successful diversification of financing instruments

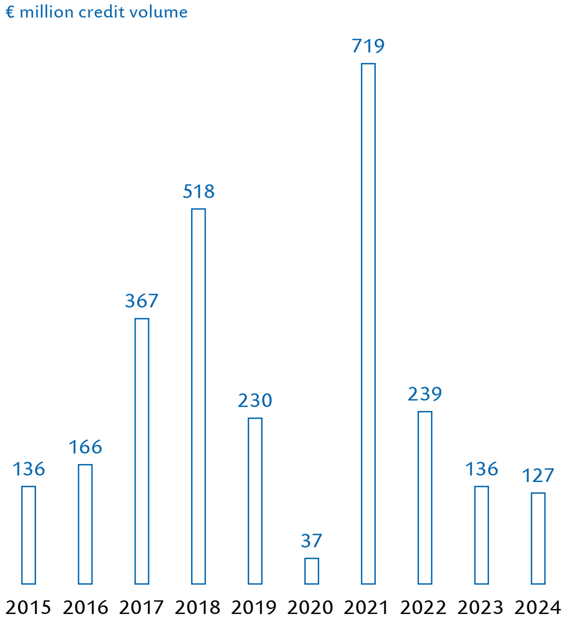
On issuing its first convertible bond on 7 April 2014, LEG successfully diversified its financing sources and further increased its business flexibility. Given the high demand, LEG was able to attract a high number of new investors and secure long-term liquidity at attractive conditions.

The total issuing volume of the convertible bond, which was placed with institutional investors, was EUR 300 million. It has a term of a little more than seven years, with a call option for investors in the fifth year and a coupon of 0.50%. The initial conversion price determined on issue of EUR 62.39 corresponded to a premium of 30.0% over the reference price of EUR 47.9918 or a premium of 28.5% above NAV as at the end of 2013 (EUR 48.56). After the dividend distribution in June 2014, the conversion price was EUR 60.2502. On this basis, the convertible bond can be converted into up to 4,979,236 new shares in LEG.

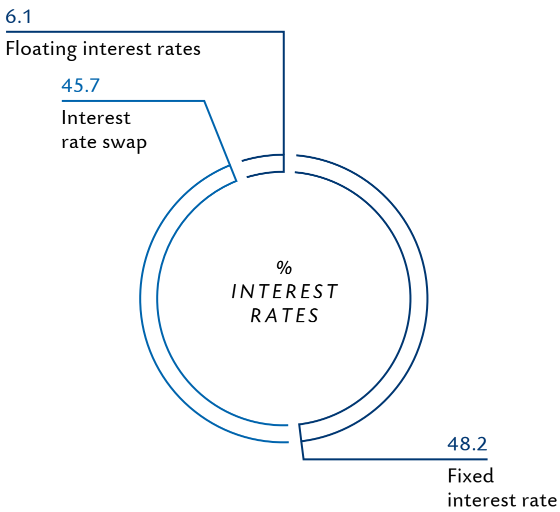
Improved equity ratio and support for further growth

On 9 October 2014 LEG bolstered its capital resources by increasing the share capital of the company to 57,063,444 shares. The 4.1 million new shares were placed with institutional investors within a very short time at a price of EUR 50 per share by way of accelerated book building. LEG received gross issue proceeds from the capital increase of EUR 205 million. The funds acquired are to be used to continue the acquisition strategy and thereby to generate further positive economies of scale, while at the same time optimising the capital structure.

F6 – Maturity profile



F7 – Interest hedging instruments



Social Charter

The LEG Group has successfully implemented the provisions of the social charter (SC) for the past six years.

As part of the sale of the LEG Group to Lancaster GmbH & Co. KG (now LEG Immobilien AG), an extensive social charter with far-reaching protection provisions, some of which are enforceable by penalty, was agreed for a period of ten years (29 August 2008 to 28 August 2018) for the benefit of the tenants, employees and properties of the entire LEG Group at the date on which the social charter was concluded.

These protection provisions include 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

An audited report is prepared each year on all measures, action taken and action not taken in connection with the protective provisions of the social charter, on the basis of which the Ministry for Construction, Housing, Urban Development and Transport of the State of North Rhine-Westphalia monitors compliance with the social charter. In the most recent 2013 audit period (as in previous years as well), full compliance was confirmed by the auditor with an unqualified opinion.

To date, no objections have been raised by the then seller. The social charter report for the 2014 financial year will be prepared in the 2015 financial year.

The text of the regulations and provisions can be found on the company's homepage at www.leg-nrw.de.

The protection provisions were not affected by the IPO of LEG Immobilien AG on 1 February 2013. All the protective provisions, including all employee protection rights, remain unaffected and continue to apply in full.

GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN)

The share purchase and transfer agreement for the shares in GWN of 14 December 2001 contained a social charter that was agreed with the seller, "Bundeseisenbahnvermögen". This social charter had a term of ten years.

Regardless of this social charter, which has since expired, the former railway housing company GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH 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 employees who were employed by the company when the shares were acquired are still in employment.

The residential portfolio still serves primarily the purpose of providing adequate and affordable housing for railway workers and their families. The company complies with these specifications. This is also attested to annually in an audit report by PricewaterhouseCoopers AG (PwC).

Acquisition of portfolios

By way of purchase agreement dated 19 October 2012, LEG Wohnen Bocholt GmbH, a wholly owned subsidiary of the LEG Group, acquired 1,244 apartments in Bocholt from GAGFAH S.A. These properties are subject to the social charter protection of GAGFAH, which will remain in force until 3 January 2017 and is enforceable by contractual penalty. LEG Wohnen Bocholt GmbH has adopted the provisions of this social charter protection in full.

There are also social charter regulations, which have likewise been adopted by LEG, for the Vitus portfolio properties acquired in October 2014. In particular, the Vitus Group owns Gemeinnützige Eisenbahn-Wohnbau-Gesellschaft mbH, Wuppertal (GEWG). Like GWN, this is a former housing company for railway workers. The comments on GWN also apply here.

Although there is no duty to report or provide information on the additional properties acquired – except for GEWG – corresponding process descriptions have been included in LEG Immobilien AG's social charter report since the properties were acquired.

Tenant Foundation

The LEG NRW Tenant Foundation has been working for social concerns for five years now. The formation of the foundation had been a component of the acquisition and takeover agreement of 29 August 2008.

The shareholders of LEG NRW GmbH (then Lancaster GmbH & Co. KG and Rote Rose GmbH & Co. KG) established the foundation in cooperation with the state of North Rhine-Westphalia for social concerns to benefit tenants and the community. The aim of this is to create non-profit or charitable value added for tenants and the public.

The support offered by the foundation has been successfully used by more and more LEG tenants since it was founded. The foundation's support services extend from individual assistance for tenants in financial difficulties, to providing accessible housing to integrative or intercultural events in residential quarters, which are also enjoyed by non-LEG tenants.

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. A total of 77 projects or tenants in need of assistance received funding of EUR 129,700 in 2014. EUR 55,600 of these projects/subsidies were of a benevolent nature and EUR 74,100 of a charitable nature.

Social commitment is a matter of great importance to LEG Immobilien AG.

Dividend

The dividend paid by LEG is based on the development of the company's FFO I (see glossary). LEG's aim is to sustainably distribute 65% of FFO I directly to its shareholders in the form of a dividend. The retained portion of FFO I is available for value enhancing investments, loan repayments and acquisitions, and hence for a further increase in shareholder value.

In order to prevent short-term dilution for existing shareholders following a capital increase in the last quarter of 2014, a one-time higher payout ratio is planned for fiscal year 2014.

On this basis, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of a dividend of EUR 1.96 per share for the fiscal year 2014. This corresponds to a payment ratio of 68 % and a dividend yield of 3.2 % based on LEG's closing share price at year-end.

Analysis of net assets, financial position and results of operations

Please refer to the glossary in the annual report for a definition of individual ratios and terms.

Results of operations

The condensed income statement is as follows:

T9 – Condensed income statement

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Net rental and lease income	71.8	69.6	284.9	257.7
Net income from the disposal of investment properties	–1.4	–0.9	–1.7	–1.7
Net income from the remeasurement of investment properties	143.0	81.6	143.0	81.6
Net income from the disposal of real estate inventory	–0.5	–1.7	–3.1	–3.1
Net income from other services	–0.3	0.4	–0.3	2.3
Administrative and other expenses	–13.2	–13.2	–41.6	–51.5
Other income	–0.1	–0.3	0.5	0.2
OPERATING EARNINGS	**199.3**	**135.5**	**381.7**	**285.5**
NET FINANCE EARNINGS	**–74.5**	**–36.2**	**–162.2**	**–126.9**
EARNINGS BEFORE INCOME TAXES	**124.8**	**99.3**	**219.5**	**158.6**
INCOME TAXES	**–36.2**	**–14.3**	**–62.7**	**–21.7**
NET PROFIT OR LOSS FOR THE PERIOD	**88.6**	**85.0**	**156.8**	**136.9**

Operating earnings (before taxes) amounted to EUR 381.7 million in the reporting year (previous year: EUR 285.5 million). Adjusted EBITDA, which includes among others the adjustment for the non-cash earnings effect of the portfolio's remeasurement, climbed from EUR 231.7 million in the previous year to EUR 259.3 million in the reporting period.

The main driver was the improvement in net rental and lease income as a result of the rise in net cold rents of EUR 29.6 million. The decline in administrative expenses, which was essentially due to lower project costs and a non-recurring effect as a result of an addition to the provision for a former development project in the same period of the previous year, contributed EUR 9.9 million to the improvement in operating earnings.

The change in net finance costs from EUR –126.9 million in the previous year to EUR –162.2 million in the period under review is essentially due to the change in the fair value of derivatives from the convertible bond (EUR –33.7 million).

Despite a rise in income taxes owing to higher expenses for deferred taxes, the net income for the reporting period was up significantly at EUR 156.8 million (previous year: EUR 136.9 million).

The condensed income statement for 2014 for the purposes of segment reporting is as follows:

T 10 – Segment reporting 2014

€million	*Residential*	*Other*	*Reconciliation*	*Group*
P&L position				
Rental and lease income	573.8	5.2	–2.2	576.8
Costs of sales of rental and lease	–291.1	–2.5	1.7	–291.9
NET RENTAL AND LEASE INCOME	**282.7**	**2.7**	**–0.5**	**284.9**
Net income from the disposal of IAS 40 property	–1.2	–0.5	–	–1.7
Net income from remeasurement of IAS 40 property	144.0	–1.0	–	143.0
Net income from the disposal of real estate inventory	0.2	–3.3	–	–3.1
Net income from other services	0.5	27.8	–28.6	–0.3
Administrative and other expenses	–37.8	–33.0	29.2	–41.6
Other income	0.3	0.3	–0.1	0.5
SEGMENT EARNINGS	**388.7**	**–7.0**	**–0.0**	**381.7**
Statement of financial position item				
Segment property (IAS 40)	5,864.9	49.4	–	5,914.3
KPI				
Rent area in sqm[1]	6,851,050	3,627		6,854,677
Target rent as at balance sheet date	34.8	0.0		34.8
Vacancy rate residential in %	2.8	3.3		2.8

[1] excluding commercial objects

The Residential segment generated operating segment earnings of EUR 388.7 million in 2014, while the Other segment generated operating segment earnings of EUR –7.0 million.

The condensed income statement for the 2013 financial year by segment is as follows:

T 11 – Segment reporting 2013

€million	*Residential*	*Other*	*Reconciliation*	*Group*
P&L position				
Rental and lease income	527.9	6.3	–2.1	532.1
Costs of sales of rental and lease	–273.5	–3.1	2.2	–274.4
NET RENTAL AND LEASE INCOME	**254.4**	**3.2**	**0.1**	**257.7**
Net income from the disposal of IAS 40 property	–0.3	–1.4	–	–1.7
Net income from remeasurement of IAS 40 property	83.2	–1.6	–	81.6
Net income from the disposal of real estate inventory	0.4	–3.6	0.1	–3.1
Net income from other services	0.5	33.0	–31.2	2.3
Administrative and other expenses	–42.9	–39.6	31.0	–51.5
Other income	0.2	–	–	0.2
SEGMENT EARNINGS	**295.5**	**–10.0**	**–**	**285.5**
Statement of financial position item				
Segment property (IAS 40)	5,104.7	58.7	–	5,163.4
KPI				
Rent area in sqm[1]	6,029,983	3,627		6,033,610
Target rent as at balance sheet date	29.9	0.0		29.9
Vacancy rate residential in %	2.9	0.0		2.9

[1] excluding commercial objects

The Residential segment generated operating segment earnings of EUR 295.5 million in 2013. The Other segment generated operating segment earnings of EUR –10.0 million.

The largest share of income in the Other segment is accounted for by income from service agreements between LEG Management GmbH and property companies in the Residential segment. The income in the Other segment and the expenses in the Residential segment are internal to the Group and are eliminated in the "Reconciliation" column.

Intragroup transactions between the segments are conducted at arm's length conditions. The development in segment earnings is described below in the report on the components of consolidated net income.

Net rental and lease income

Net rental and lease income broke down as follows in 2014: Table *T12*

In 2014 the LEG Group increased its net rental and lease income by EUR 27.2 million compared to the previous year. The main drivers in this development were the EUR 29.6 million rise in net cold rents and, offsetting this, the EUR 3.9 million higher maintenance expenses, due in part to a slight decline in the capitalisation rate.

Rent increases and the acquisitions of property portfolios contributed to a rise in rental income of 8.2% from EUR 360.5 million in the previous year to EUR 390.1 million in the period under review.

Following the successful implementation of the IPO in February 2013, performance bonuses of EUR 4.7 million were granted to employees in the previous year. The share of this cost that was allocated to the cost of sales in connection with rental and lease income was EUR 2.1 million. The performance bonuses were charged in full to the former shareholders Restio B.V. and Perry Luxco S.à r.l.

The LEG Group invested selectively in its assets in the reporting period. Investing activities in the period under review focused on measures to promote the new letting of vacant apartments. At EUR 89.1 million, total investment was EUR 3.6 million higher than in the previous year. The increase is due to the growth of the portfolio. Around EUR 2.6 million of total investments related to the newly acquired properties.

T12 – Net rental and lease income

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Net cold rent	103.5	91.3	390.1	360.5
Profit from operating expenses	0.8	1.1	1.3	–0.7
Maintenance	–17.5	–8.4	–45.7	–41.8
Staff costs	–8.8	–7.8	–33.2	–33.0
thereof IPO costs	–	–	–	–2.1
Allowances on rent receivables	–1.9	–1.8	–5.4	–4.5
Depreciation and amortisation expenses	–1.1	–0.9	–4.2	–4.1
IPO reimbursement	–	–	–	2.1
Other	–3.2	–3.9	–18.0	–20.8
NET RENTAL AND LEASE INCOME	**71.8**	**69.6**	**284.9**	**257.7**
NET OPERATING INCOME – MARGIN (IN %)	**69.4**	**76.2**	**73.0**	**71.5**

A high level of work eligible for capitalisation was performed in the final quarter of the previous year. In line with planning, a balanced ratio of measures intended to maintain and increase value was upheld in the reporting period.

As a result of work on the new acquisition portfolios and maintenance brought forward, maintenance expenses increased from EUR 41.8 million in the previous year to EUR 45.7 million in the reporting period, while capitalised modernisation work matched the previous year's level in the period under review at EUR 43.4 million (EUR 43.7 million).

Compliance with the requirements of the social charter, which prescribe a minimum investment volume of EUR 12.50 per square metre, is assured.

Net income from the disposal of investment property

Net income from the disposal of investment property was composed as follows in 2014: Table *T14*

Investment property was sold again in the reporting period for the purpose of selective portfolio streamlining.

Some of the residential properties that are not a part of the strategic core portfolio were sold in block sales. The sales proceeds were slightly higher than the carrying amounts overall.

One commercial property, for which the purchase agreement was signed in December 2013, was transferred to the buyer in the second quarter of 2014 and contributed sale proceeds and a carrying amount disposal, both of EUR 14.2 million, to the net gain on disposal.

The higher sales volume led to higher commission on sales in the reporting period (EUR +0.5 million). This was offset by the costs to sell of a commercial property disposed of in the second quarter of 2014, for which a provision of EUR 0.3 million was ultimately recognised in 2013. The costs to sell the investment property sold therefore rose by EUR 0.2 million in the reporting period.

T 13 – Maintenance and modernisation of investment properties

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Maintenance expenses for investment properties	17.5	8.4	45.7	41.8
Capital expenditure	16.7	19.2	43.4	43.7
TOTAL INVESTMENT	**34.2**	**27.6**	**89.1**	**85.5**
Area of investment properties in million sqm	6.45	6.10	6.45	6.10
AVERAGE INVESTMENT PER SQM (€/SQM)	**5.3**	**4.5**	**13.8**	**14.0**

T 14 – Net income from the disposal of investment properties

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Income from the disposal of investment properties	6.2	7.2	37.6	15.2
Carrying amount of the disposal of investment properties	–6.2	–7.2	–37.2	–15.0
Costs of sales of investment properties sold	–1.4	–0.9	–2.1	–1.9
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–1.4**	**–0.9**	**–1.7**	**–1.7**

Net income from the remeasurement of investment property

Net income from the remeasurement of investment property amounted to EUR 143.0 million in 2014 (2013: EUR 81.6 million). Based on the portfolio as at the end of the reporting period, this corresponds to an increase in value of around 2.8%. The increase in in-place rent and the development in the discount rate had a positive impact on net remeasurement income in the current financial year. This was countered by the rise in real estate transfer tax and slightly higher maintenance and management cost rates.

The average value of residential investment property (including IFRS 5 properties) was EUR 827 per square metre as at 31 December 2014 (31 December 2013: EUR 806 per square metre) including acquisitions and EUR 839 excluding acquisitions. Thus, a year-on-year increase of 4.1% in the value in euro per square metre (including investments in the portfolio but not including acquisitions) was generated in the 2014 financial year.

Net income from the disposal of real estate inventory

Net income from the disposal of real estate inventory was composed as follows in 2014: Table T15

The sale of the remaining properties of the former Development division continued in 2014. The remaining real estate inventory held as at 31 December 2014 amounted to EUR 4.2 million, EUR 2.8 million of which related to properties under development.

A reimbursement of development costs for a property already sold of EUR 0.5 million and minor staff savings led to a year-on-year decline in the cost of sales for the real estate inventory sold of EUR 0.7 million.

Net income from other services

Other services include electricity and heat fed to the grid, IT services for third parties and management services for third-party properties. There were non-recurring effects in both the reporting period and the comparative period, which resulted in a decline in net income from other services.

The decline in income from electricity production was offset by a rise in costs of materials and the one-time addition to a provision, which essentially contributed to the rise in costs in connection with other services.

The acquisition of the former Vitus companies also resulted in higher income and expenses for third-party management services.

T15 – Net income from the disposal of inventory properties

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Income from the disposal of inventory properties	0.2	3.2	5.7	9.0
Carrying amount of inventory properties sold	–0.1	–3.3	–5.0	–7.6
Costs of sales in connection with inventory properties sold	–0.6	–1.6	–3.8	–4.5
NET INCOME FROM THE DISPOSAL OF INVENTORY PROPERTIES	**–0.5**	**–1.7**	**–3.1**	**–3.1**

T16 – Other services

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Income from other services	2.7	2.6	9.3	9.7
Expenses in connection with other services	–3.0	–2.2	–9.6	–7.4
NET INCOME FROM OTHER SERVICES	**–0.3**	**0.4**	**–0.3**	**2.3**

Administrative and other expenses

Administrative and other expenses were composed as follows:

T 17 – Administrative and other expenses

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Other operating expenses	–7.1	–6.1	–16.9	–31.8
Staff costs	–5.3	–6.2	–21.6	–25.4
Purchased services	–0.2	–0.3	–0.9	–1.1
Depreciation and amortisation	–0.6	–0.6	–2.2	–2.3
IPO costs reimbursement	–	–	–	9.1
ADMINISTRATIVE AND OTHER EXPENSES	**–13.2**	**–13.2**	**–41.6**	**–51.5**

Administrative and other expenses were strongly affected by non-recurring effects overall.

The IPO on 1 February 2013 caused additional consulting and non-staff operating costs of EUR 6.6 million in the previous year, which are reported in other operating expenses; project-related non-recurring costs declined by EUR 1.3 million. The increase in the provision for risks from a former Development project added EUR 4.1 million to other operating expenses in the previous year.

The main reason for the reduction in staff costs is the absence of the performance bonuses paid in connection with the IPO in 2013. The share attributable to administrative and other expenses amounted to EUR 2.5 million in the previous year. The long-term incentive (LTI) programme resulted in non-cash expenses in the reporting period down by EUR 2.1 million.

This was offset by rising ongoing staff costs, which were affected amongst others by higher expenses under the short-term incentive (STI) programme (increase of EUR 0.7 million).

Despite the growing size of the portfolio and the increase in standard wages, current administrative expenses were reduced further from EUR 35.2 million in the previous year to EUR 33.1 million in the reporting period (EUR 0.5 million of which due to the Vitus portfolio included in consolidation for the first time as at 1 November 2014). In particular, this reflects the positive cost effects of the reduction in the number of Supervisory Board members and the decline in consulting and non-staff operating costs.

Net finance costs

The LEG Group reported net finance costs of EUR –162.2 million (previous year: EUR –126.9 million). This figure was composed as follows:

T 18 – Net finance costs

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Interest income	0.4	0.2	1.2	1.0
Interest expenses	–34.7	–36.2	–128.5	–131.4
NET INTEREST INCOME	**–34.3**	**–36.0**	**–127.3**	**–130.4**
Net income from other financial assets and other investments	–0.1	–0.6	7.1	0.8
Net income from associates	0.3	0.3	0.3	0.3
Net income from the fair value measurement of derivatives	–40.4	0.1	–42.3	2.4
NET FINANCE COSTS	**–74.5**	**–36.2**	**–162.2**	**–126.9**

The reduction in interest expenses from EUR 131.4 million in the previous year to EUR 128.5 million in the period under review is essentially due to the decline in interest expenses from loan amortisation (EUR –5.6 million). The drop in interest expenses from loan amortisation results in particular from the absence of one-time effects incurred for refinancing activities in 2013. This was offset by amortisation effects of the convertible bond of EUR 4.5 million included in the interest expenses from loan amortisation.

The rise in net income from investment securities essentially results from the reimbursement of payments of tax arrears by the former shareholder for external tax audits for the years 2005 to 2008 in the amount of EUR 5.7 million. The corresponding cost of EUR 6.1 million is reported in income taxes. Provisions were recognised in previous years for the risk of the portion to be paid by the company in the amount of EUR 0.4 million.

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of derivatives from the convertible bond of EUR –33.7 million, EUR –40.7 million of which in the third quarter.

After adjustment for prepayment penalties and other items, net cash interest expenses thus climbed to EUR 94.5 million (previous year: EUR 91.0 million). The main factors driving this increase were new loans in the context of acquisition financing and interest payments for the convertible bond.

The average interest rate for the entire loan portfolio declined to 2.8% (2013: 3.2%) on an average term of around 9.8 years.

Income taxes

As at 31 December 2014 the current, effective Group tax rate was 28.6% (previous year: 13.6%), which was defined by one-time effects in connection with an external audit. The rise in income taxes from EUR –21.7 million in the previous year to EUR –62.7 million in the reporting period is essentially due to higher consolidated earnings before taxes, payments of tax arrears from external audits and significantly higher deferred tax liabilities on the carrying amounts of properties than in the previous year.

The current income taxes as at 31 December 2014 include payments of tax arrears from external audits for the years 2005 to 2008 of EUR 6.1 million. Around EUR 5.7 million of this was reimbursed by the shareholder at the time on the basis of an obligation under the sale agreement in 2008. The reimbursement amount is reported in net income from investment securities.

Furthermore, as against the same period of the previous year, deferred tax income of EUR 1.2 million from amended deferred tax assets on tax loss carryforwards was taken into account. In connection with the higher consolidated earnings before taxes, this led to a rise in deferred tax expense of EUR 33.7 million as against the same period of the previous year.

T19 – Tax expenses

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
Current tax expenses	–	0.3	–6.8	0.5
Deferred tax expenses	–36.2	–14.6	–55.9	–22.2
Tax expenses	**–36.2**	**–14.3**	**–62.7**	**–21.7**

Reconciliation to FFO

FFO is a key performance indicator at LEG Immobilien AG. LEG Immobilien AG distinguishes between FFO I (not including the results of the disposal of investment property) and FFO II (including the results of 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 in 2014: Table *T20*

At EUR 163.6 million in the reporting period, FFO I (not including net income from the disposal of investment property) was 15.9% higher than in the same period of the previous year (EUR 141.2 million). In particular, the increase shows the effects of the rise in net cold rents (+EUR 29.6 million) including the effects of the acquisitions performed. This was countered by the higher maintenance expenses than in the previous year (EUR –3.9 million) and the higher cash interest expense.

T20 – Calculation of FFO I, FFO II and AFFO

€million	*Q4 2014*	*Q4 2013*	**2014**	*2013*
NET PROFIT OR LOSS FOR THE PERIOD (IFRS)	**88.6**	**85.0**	**156.8**	**136.9**
Interest income	–0.4	–0.2	–1.2	–1.0
Interest expenses	34.7	36.3	128.5	131.4
NET INTEREST INCOME	**34.3**	**36.1**	**127.3**	**130.4**
Other financial expenses	40.2	0.1	34.9	–3.5
Income taxes	36.2	14.3	62.7	21.7
EBIT	**199.3**	**135.5**	**381.7**	**285.5**
Depreciation and amortisation expenses	2.3	2.2	8.6	8.6
EBITDA	**201.6**	**137.7**	**390.3**	**294.1**
Measurement at fair value of investment properties	–143.0	–81.6	–143.0	–81.6
LTIP (long-term incentive programme)	0.3	0.7	1.2	3.3
Non-recurring project costs	3.1	2.1	5.8	7.9
Extraordinary and prior-period expenses and income	0.1	–	0.2	3.2
Net income from the disposal of investment properties	1.4	0.9	1.7	1.7
Net income from the disposal of real estate inventory	0.5	1.7	3.1	3.1
ADJUSTED EBITDA	**64.0**	**61.5**	**259.3**	**231.7**
Cash interest expenses and income	–24.1	–24.0	–94.5	–91.0
Cash income taxes	–0.1	0.2	–1.2	0.5
FFO I (NOT INCLUDING DISPOSAL OF INVESTMENT PROPERTY)	**39.8**	**37.7**	**163.6**	**141.2**
Net income from the disposal of investment properties	–1.4	–0.9	–1.7	–1.7
FFOII (INCL. DISPOSAL OF INVESTMENT PROPERTIES)	**38.4**	**36.8**	**161.9**	**139.5**
Capex	–16.7	–19.2	–43.4	–43.7
CAPEX-ADJUSTED FFO I (AFFO)	**23.1**	**18.5**	**120.2**	**97.5**

Net asset situation (condensed statement of financial position)

The condensed statement of financial position is as follows:

T21 – Net assets (condensed balance sheet)

€million	**31.12.2014**	*31.12.2013*
Investment properties	5,914.3	5,163.4
Prepayments for investment properties	16.8	6.9
Other non-current assets	155.8	91.9
Non-current assets	6,086.9	5,262.2
Receivables and other assets	35.9	33.8
Cash and cash equivalents	129.9	110.7
Current assets	165.8	144.5
Assets held for sale	58.4	16.4
TOTAL ASSETS	**6,311.1**	**5,423.1**
Equity	2,491.6	2,276.1
Non-current financial liabilities	2,546.5	2,396.7
Other non-current liabilities	612.3	443.9
Non-current liabilities	3,158.8	2,840.6
Current financial liabilities	413.8	187.0
Other current liabilities	246.9	119.4
Current liabilities	660.7	306.4
TOTAL EQUITY AND LIABILITIES	**6,311.1**	**5,423.1**

Total assets amounted to EUR 6,311.1 million in the year under review (2013: EUR 5,423.1 million). The Group reported a net profit for the period of EUR 156.8 million (2013: EUR 136.9 million).

Non-current assets are the largest item on the assets side of the statement of financial position. The main assets of the LEG Group are its investment property, which amounted to EUR 5,914.3 million as at 31 December 2014 (2013: EUR 5,163.4 million). This corresponds to 93.7% of total assets as at 31 December 2014 (2013: 95.2%).

Prepayments for the acquisition of further property portfolios of EUR 16.8 million were reported as investment property as at the end of the reporting period. The economic transfer of these portfolios is scheduled for the first half of 2015.

Residential properties resulting from the portfolio acquisition of Deutsche Annington were reported as assets held for sale in the amount of EUR 24.5 million as at 31 December 2014. The risks and rewards were transferred to the buyer on 1 January 2015.

The main items on the equity and liabilities side are the reported equity of EUR 2,491.6 million (2013: EUR 2,276.1 million) and financial liabilities in the amount of EUR 2,960.3 million (2013: EUR 2,583.7 million).

In particular, the net profit for the year of EUR 156.8 million and the capital increase (gross issue proceeds: EUR 205.0 million) contributed to a rise in equity in the past financial year.

The rise in financial liabilities in 2014 as against 2013 is essentially due to loan utilisation and the purchase price financing for the portfolios acquired (including the placement of the convertible bond with a nominal value of EUR 300.0 million and a carrying amount as at 31 December 2014 of EUR 255.2 million).

The LEG Group reported total provisions of EUR 196.7 million (2013: EUR 149.0 million), EUR 164.6 million (2013: EUR 118.4 million) of which for pensions and similar obligations. The low interest levels led to a decline in the effective interest rate, thereby increasing pension provisions. The rise due to interest rate changes is reported in other comprehensive income.

Net asset value (NAV)

A further performance indicator relevant to property management is NAV. Details of the calculation system for the respective indicator can be found in the glossary.

There was a slight modification to the existing NAV calculation in order to further improve transparency and align with international reporting standards. Thus, property-based deferred taxes that relate to subsidised loans and derivatives are also adjusted.

The LEG Group reported basic EPRA NAV of EUR 2,985.9 million as at 31 December 2014. The effects of the possible conversion of the convertible bond are shown by an additional calculation of diluted EPRA NAV. Diluted EPRA NAV as at 31 December 2014 was EUR 3,294.6 million.

The goodwill resulting from the acquisition of Deutsche Annington of EUR 61.6 million consisted of EUR 25.9 million in synergies and EUR 35.7 million in deferred taxes on investment property that increased goodwill.

Not including the goodwill resulting from synergies, (diluted) EPRA NAV amounts to EUR 3,268.7 million.

T22 – EPRA NAV

€million	**31.12.2014 undiluted**	**2014 Effect of exercise of convertible**	**31.12.2014 diluted**	*31.12.2013*	*31.12.2013 (adjusted)*
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	2,477.3	0.0	2,477.3	2,248.8	2,248.8
NON-CONTROLLING INTERESTS	14.3	–	14.3	27.3	27.3
EQUITY	**2,491.6**	**–**	**2,491.6**	**2,276.1**	**2,276.1**
Effect of exercise of options, convertibles and other equity interests	–	308.7	308.7	–	–
NAV DILUTED	**2,477.3**	**–**	**2,786.0**	**2,248.8**	**2,248.8**
Fair value measurement of derivative financial instruments	136.1	–	136.1	52.0	52.0
Deferred taxes on WFA loans and derivatives	32.2	–	32.2	–	44.2
Deferred taxes on investment property	376.0	–	376.0	271.1	271.1
Goodwill resulting from deferred taxes on investment property	–35.7	–	–35.7	–	–
EPRA NAV	**2,985.9**	**–**	**3,294.6**	**2,571.9**	**2,616.1**
NUMBER OF SHARES	**57,063,444**	**4,979,236**	**62,042,680**	**52,963,444**	**52,963,444**
EPRA NAV PER SHARE	**52.33**	**–**	**53.10**	**48.56**	**49.39**
EPRA NAV	2,985.9	–	3,294.6	2,571.9	2,616.1
Goodwill resulting from synergies	25.9	–	25.9	–	–
ADJUSTED EPRA-NAV (W/O EFFECTS FROM GOODWILL)	**2,960.0**	**–**	**3,268.7**	**2,571.9**	**2,616.1**
NUMBER OF SHARES	**57,063,444**	**4,979,236**	**62,042,680**	**52,963,444**	**52,963,444**
ADJUSTED EPRA-NAV PER SHARE	**51.87**	**–**	**52.69**	**48.56**	**49.39**

Loan-to-value ratio

Net debt in relation to property assets declined slightly year-on-year in the year under review, resulting in a loan-to-value ratio (LTV) of 47.3% (2013: 47.7%).

T23 – Loan-to-value ratio

€million	**31.12.2014**	*31.12.2013*
Financial liabilities	2,960.3	2,583.7
less cash and cash equivalents	129.9	110.7
NET FINANCIAL LIABILITIES	**2,830.4**	**2,473.0**
Investment properties	5,914.3	5,163.4
Assets held for disposal	58.4	16.4
Prepayments for investment properties	16.8	6.9
REAL ESTATE ASSETS	**5,989.5**	**5,186.7**
LOAN TO VALUE RATIO (LTV) IN %	**47.3**	**47.7**

Financial position

The Group generated a net profit for the period of EUR 156.8 million (previous year: EUR 136.9 million). Equity amounted to EUR 2,491.6 million (previous year: EUR 2,276.1 million), corresponding to an equity ratio of 39.5% (previous year: 42.0%).

On 7 April 2014 LEG Immobilien AG issued a non-subordinated, unsecured convertible bond maturing in 2021 with a total nominal amount of EUR 300 million.

On 9 October 2014 LEG Immobilien AG increased its share capital by a nominal amount of EUR 4,100,000 by issuing 4,100,000 new registered shares in the company at EUR 50.00 each.

A dividend of EUR 91.6 million (EUR 1.73 per share) was paid from cumulative other reserves in the period under review.

The condensed statement of cash flows of the LEG Group for 2014 is as follows:

T24 – Statement of cash flows

€million	**2014**	*2013*
Cash flow from operating activities	146.9	102.1
Cash flow from investing activities	–607.4	–163.3
Cash flow from financing activities	479.7	38.2
CHANGE IN CASH AND CASH EQUIVALENTS	**19.2**	**–23.0**

Higher receipts from rental income and incidental costs, coupled with lower outgoing payments for projects costs, had a positive effect on the development of cash flow from operating activities. This was offset by higher payments for operating costs and other property management expenses. Cash flow from operating activities therefore increased by EUR 44.8 million year-on-year to EUR 146.9 million.

The acquisition of the former Vitus companies led to a net cash outflow of EUR 448.5 million in the 2014 financial year. Acquisitions of other property portfolios contributed payments of EUR 178.2 million to cash flow from investing activities. Furthermore, payments for the modernisation of the property portfolio and receipts from property sales resulted in cash flow from investing activities of EUR –607.4 million.

The issue of the convertible bond (EUR 296.1 million) and the capital increase (EUR 203.3 million) contributed largely to the higher cash flow from financing activities. This was offset by the EUR 69.9 million rise in the dividend distribution in the reporting period to EUR 91.6 million. Net loan utilisation and repayments were EUR 18.7 million higher than in the previous year. Cash flow from financing activities therefore amounted to EUR 479.7 million in the reporting period.

The LEG Group was solvent at all times in the past financial year.

SUPPLEMENTARY REPORT

LEG intends to secure the currently attractive interest rates and credit margins for the long term. Thus, loans of around EUR 900 million maturing in 2018 are to be refinanced early and replaced by new loan agreements with average terms of ten years. On the basis of current indications from financing partners, this will allow the reduction of average financing costs from 2.84% as at 31 December 2014 to provisionally less than 2.3%. At the same time, the average term is to be increased from 9.8 years to more than 11 years. The planned effects on earnings will be fully visible in 2016. The refinancing entails estimated non-recurring costs of around EUR 60 million.

EnergieServicePlus GmbH was founded by way of notarised agreement on 17 February 2015. The object of the company is to provide energy supply services and energy-related services.

There were no other transactions of material importance to the Group after the end of the financial year.

RISK, OPPORTUNITY, AND FORECAST REPORT

Report on Risks and Opportunities

1. Governance, risk & compliance

1.1 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, LEG has implemented a Group-wide structure for the identification, management and controlling of risks. A central component of this is the risk management system and the internal control system.

1.2 Accounting process / internal control system

Regarding the accounting process, the aim and purpose of the internal control system is to record and present transactions accurately, completely and in accordance with statutory requirements. To this end, LEG has 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.

The key features of the internal control system for the (consolidated) accounting process can be summarised as follows:

- LEG has a clear and transparent organisational and control and management structure
- The duties within the accounting process are clearly defined
- The principle of dual control, the separation of functions and analytical audit procedures are central elements in the accounting process
- The accounting process is aided by standard software. IT permissions reflect the authorities described in the guidelines
- 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

Internal Audit conducts process-independent audits to monitor the effectiveness of the internal control system. The external auditor assesses the internal control system as part of the audit of the annual financial statements. On the basis of these reports, the Supervisory Board respectively the Audit Committee review the functionality of the internal control system with regard to the accounting process.

1.3 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 shareholders, tenants, customers, business partners, employees and the public at large. Fully aware of this, the compliance system is designed to take into account legal and ethical principles in our day-to-day business.

The main principles applying both to conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be accessed on the LEG website. As a guideline for proper conduct, it helps employees to make 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 the external ombudsman, who will treat their information confidentially and anonymously if so desired. 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 the Legal and Human Resources central divisions and the external ombudsman advise the Compliance Officer on the design of the compliance system. Permanent benchmarking against other compliance systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance system.

Compliance is assigned to the Audit and Compliance department, which 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.

1.4 Risk management

LEG Immobilien AG has a Group-wide risk management system (RMS). A key component of the RMS is LEG's Group-wide risk early warning system. This system is supported by the "r2c – risk to chance" IT tool. The coordination and monitoring of the overall system, the organisation of processes 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. This system satisfies the general legal conditions and ensures audit security.

LEG's risk early warning system was examined by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) regarding the requirements of the German Stock Corporation Act (AktG) 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 so that it can handle the changing internal and external requirements.

On account of its business activities, the LEG Group is exposed to an interest rate risk that results in particular from the conclusion of variable rate liabilities. The interest rate risk is hedged using derivative financial instruments such as interest rate swaps. They serve to hedge operating activities and therefore the associated cash investments and financial transactions. The aim is to reduce the effect of fluctuations arising from changes in interest rates on earnings and cash flows. Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The treasury guideline 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 loss of EUR 0.2 million or more are immediately reported to the Management Board – also involving Controlling and Risk Management.

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.

1.5 Assessment content/schemes

In a uniform risk catalogue system broken down by categories and using saved examples, 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 extent of damage and probability of occurrence.

The effect on liquidity, taking into account the business model in place, serves almost exclusively as the benchmark for assessing and classifying a risk's damage. In cases in which a risk does not directly affect liquidity its impact on earnings is used. In such cases, the assessment and classification are based on deviations from planned earnings as per business planning.

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

The individual categories for risk impact are as follows:

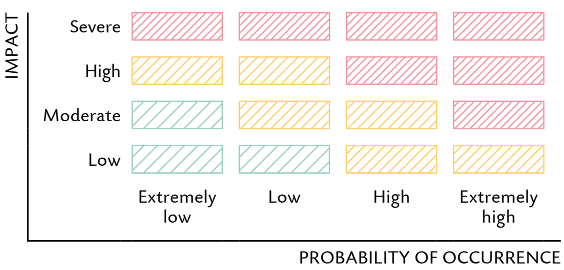
a) Low: Impact of between EUR 0 million and EUR 0.5 million
b) Moderate: Impact of between EUR 0.5 million and EUR 2.25 million
c) Significant: Impact of between EUR 2.25 million and EUR 11.25 million
d) Severe: Impact of between EUR 11.25 million and EUR 45.0 million

The categories for the probability of occurrence are as follows:

a) Extremely low: Probability of occurrence of between 0.0% and 5.0%
b) Low: Probability of occurrence of between 5.1% and 20.0%
c) High: Probability of occurrence of between 20.1% and 50.0%
d) Extremely high: Probability of occurrence of 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 (impact weighted by probability of occurrence):

F8 – Risk matrix



2. Overall assessment of risks and opportunities

Below, we will first discuss general risks such as macroeconomic risks and market risks. We will then continue from the overall risks determined to those that, in the opinion of the company, are particularly relevant and the measures used to control them.

Overall, for fiscal years 2014 and 2015 the Management Board does not expect any risks to the continued existence of the LEG Group as a whole.

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

2.1 Macroeconomic risks

The German property market is influenced by economic developments in Germany, and is therefore exposed to both external and internal economic risk factors. LEG cannot separate itself from this.

Growth forecasts in the eurozone and Germany were adjusted downwards in 2014, and growth momentum remained weak overall. However, the high level of debt, geopolitical risk and continuing structural problems in many countries mean that the European and global economy are still highly susceptible to disruption on the whole. A significant deterioration in the economic environment could have a negative impact on the employment market and the income situation, and therefore could adversely affect letting business. Turbulence on the financial markets could have a negative impact on financing conditions and property values in the medium term.

Opportunity lies in momentum on the global economy increasing significantly.

2.2 Market risks

The LEG property portfolio is focused in the federal state of North Rhine-Westphalia. Germany's most populous federal state, NRW is broken down into submarkets with heterogeneous economic and demographic conditions. While the economically strong regions and conurbations such as Muenster, Cologne and Dusseldorf are experiencing an excess in housing demand and therefore rising rent trends, the structurally weaker areas tend to be a tenants' market, resulting in more intensive competition between housing providers.

Through intensive market monitoring, LEG takes into account both past developments and future forecasts for the different regions in its decision-making. Market risks and rewards are therefore taken into account when determining purchase prices in the acquisition process. The management strategy analyses the supply and demand situation, in particular on the basis of market rent comparisons and the observable active vacancy rate. Sales are predominantly implemented in line with the aspect of risk minimisation for locations and properties with clearly negative forecasts, or with the aim of optimising management efficiency.

LEG's main sources for market analysis are the LEG Housing Market Report for North Rhine-Westphalia, published each year with CBRE since 2010, statistics released by state and federal offices, market studies by independent third parties and its own analyses using in-house expertise. The NRW residential market as a whole was still characterised by stable to high demand for housing in 2014, leading to growth in rent overall.

2.3 Risks concerning property valuation

A number of directly and indirectly observable parameters are incorporated in the valuation of the property portfolio. The assessment of the macro- and micro-location on the basis of socio-demographic data and the local infrastructure plays just as much a part as the technical quality of the building. Furthermore, the directly observable factors include current vacancies, the most recent initial rents and local reference rents, to which greater significance will be attached moving ahead on account of further statutory regulations. A change in any individual parameter can, to varying degrees, have a positive or negative impact on valuation. The factors with the biggest influence on valuation are the general market rent level, general purchase price trends as observed and reported by expert committees, and the anticipated development of market rent and the general price level.

Macroeconomic factors such as deflationary trends can also influence property values. Depending on the investment alternatives available, the flow of liquidity into or out of property as an asset class can have a considerable impact on prices on the property market. Possible market distortions can affect property values, possibly after a delay, according to the availability of the corresponding data.

2.4 Risk categorisation

In its risk reporting, LEG classifies the identified risks according to the main categories and subcategories shown in the table, and their associated impact and probability of occurrence (after countermeasures): Table *T25*

The table shows all relevant risk categories. Risks that are assigned to the "red" assessment range are considered particularly relevant. These are shown in the table.

With the exception of the risks relating to issuing a convertible bond, the risk situation is essentially the same as in the previous year.

In addition to the table, the main risk categories of our business model are explained in more detail regardless of their valuation levels.

T25 – Risk categories

Risks main categories	*Risks sub categories*	*Impact*	*Probability of occurrence*
General business risks	No relevant risks	No relevant risks	No relevant risks
Compliance risks	No relevant risks	No relevant risks	No relevant risks
Property risks	Modernisation/maintenance	Significant	Extremely high
Finance	Prolongation risks	Severe	Extremely low
	Breach of financial covenants	Severe	Extremely low
	Stability of bank partners (banking market)	Severe	Extremely low
Accounting	No relevant risks	No relevant risks	No relevant risks
Tax risks	Taxes/duties	Moderate	Extremely high
Human resources	No relevant risks	No relevant risks	No relevant risks
Legal risks	Liability/insurance risks	Severe	Low
	Contract risks	Moderate	Extremely high
	Legal disputes	Moderate	Extremely high
Information and communication risks	No relevant risks	No relevant risks	No relevant risks
Project business risks	Commercial project business risks	Moderate	Extremely high

2.4.1 General business risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

The protective provisions of the social charter include regulations on tenant and employee protection, business restrictions and limitations on reselling and restructuring. The protective provisions therefore have a major influence on various operational processes, procedures and transactions at the LEG Group.

Preventing violations of the social charter is a top priority at the LEG Group. The high importance attached to avoiding such breaches is due in part to the fact that some of the social charter's protective provisions are subject to contractual penalties, which go hand-in-hand with the resulting loss of reputation on the residential market.

Precautions have been taken to minimise the risk of a violation with a quality assurance concept implemented in the company and the annual review of all measures and activities relating to the protective provisions of the social charter by an audit firm.

In the most recent 2013 audit period (as in previous years as well), full compliance was confirmed by the auditor with an unqualified opinion. If, contrary to expectations, the protection provisions are nonetheless not complied with, the terms of the social charter state that any violations may be rectified in full within six months of becoming known.

The social charter of Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN), which is regulated in the purchase agreement of 14 December 2000, is controlled – as in previous year – in the context of organised committee work.

In 2012 LEG Wohnen Bocholt GmbH acquired 1,244 apartments in Bocholt. This portfolio is protected by the GAGFAH social charter, which applies until 3 January 2017 and is also enforced by penalty. This protection was adopted in full by LEG Wohnen Bocholt GmbH. Monitoring compliance with this charter is made easier by the fact that the entire portfolio is managed by a customer centre created especially for this purpose, and is included in its quality controls performed during the year.

There are also social charter regulations for the Vitus portfolio properties acquired in October 2014. The properties in question will be included in the quality assurance process from the 2015 financial year.

2.4.2 Compliance risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

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

In the letting business irregular lease benefits can occur. These are prevented by organisational measures, e.g., the application of standardised lease contracts and the definition of target rents.

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 advice as, for example, services in maintenance, financing or as an agency. In order to prevent fraud standardised agreements including anti-corruption clauses have been prepared. There is also a Code of Conduct, which applies to all LEG employees and to all its contractual partners. A clear separation of functions between procurement and invoicing has also been introduced as a further organisational measure.

2.4.3 Property risks

Modernisation / maintenance risks

The risks relevant here essentially result from changes in ordinances or the need to guarantee safety precautions.

The effects of changes in ordinances are directly taken into account in business planning and approved by all responsible committees.

Regarding risks in connection with safety precautions, the rule is that safe conditions must be established "promptly" to rule out liability. The measures are analysed and confirmed by experts.

Portfolio risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

In the context of the constant monitoring of key factors that can influence value, from both an operational and market perspective, the following risks were identified for the portfolio:

Technical risks refer to a substantial, sometimes sudden, deterioration in the fabric of buildings, with the result that the company is forced to pay for unplanned repairs.

Demand risks can arise firstly from a deterioration in the economic environment leading to a general decline in demand for housing. Secondly, a change in customer preferences or the market entry of new competitors can lead to a drop in demand for the types of housing offered by the company.

Inspections are regularly conducted by internal and external technicians to minimise technical risks. In the event of sudden and unexpected occurrences, top priority is accorded to ensuring safety and averting danger.

Demand risks can be reduced by LEG's non-central management structure. This allows it to react even at short notice to local circumstances and changes in customer wishes if necessary. Management concepts down to district level ensure the ongoing development of the portfolio as part of the basic housing strategy.

Risk of rent default

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

As a property manager, LEG is subject to the risk of tenants defaulting on rent. This risk is countered firstly by standardised credit checks as part of the letting process and secondly by the early identification of problem leases thanks to active receivables management, leading to the implementation of appropriate countermeasures.

This risk of rent default does exist in individual cases. This risk is reflected in accounting by recognising suitable write-downs.

Acquisition risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

As part of its acquisition activities, LEG takes a structured approach when analysing the acquisition of new portfolios. Risks and potential are assessed with the involvement of internal and external experts. This allows us to produce high-quality analyses of the portfolios and their development. In addition to the risk of an incorrect assessment of acquisition parameters, there is the risk that information negatively influencing economic assumptions only becomes known after the conclusion of acquisition activities, with a correspondingly negative effect on profitability and the value of portfolios. LEG attempts to provide protection against this as far as possible with guarantees in its purchase agreements.

However, there is also the chance that the portfolios acquired could perform better than expected.

Sales risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

In addition to selling off privatised owner-occupied apartments, sales of properties from portfolios include defined residential and commercial properties for the purpose of portfolio and management optimisation.

There is the risk that the planned purchase prices cannot be achieved on the market. Rescission can also occur after sales have been implemented.

In our opinion, the structured sales process in place guarantees the safe selection of disposal portfolios, the intrinsic value of the properties being sold and the credit and integrity of buyers.

Current demand on the transaction market, even for opportunistic properties, can be leveraged to selectively sell properties that are not a good fit for the core portfolio in the long term.

2.4.4 Financial risks

Prolongation risk

A relevant prolongation risk is the risk that follow-up financing is not possible or is not possible at the anticipated conditions, thereby necessitating the repayment of financing. This risk is limited thanks to the long-term financing structure and the distributions of maturities over a period of several years. The prolongation risk is also reduced by the consistently good scenario on the financing market at the current time.

Breach of financial covenants

A risk of non-compliance with contractually agreed financial covenants could result in the extraordinary termination of credit agreements. Furthermore, a violation of the conditions of the loan agreement can lead to higher interest payments, special repayments and/or the utilisation of the collateral provided.

An internal control process has been implemented at LEG to ensure compliance with financial covenants. The covenants stipulated in the loan 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)

In light of its long-term business relationships, the stability of the 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 business policy, resulting in more restrictive lending, higher margins and ultimately rising relative costs of debt. A risk relevant to the LEG Group could result from this.

In particular, the insolvency of a financing partner could lead to financial losses under contractual arrangements giving rise to claims on the part of LEG, e.g. derivative interest hedges. In designing internal policies, minimum requirements relating to the credit standing of business partners were therefore stipulated for interest hedges.

Liquidity risk

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

LEG uses rolling liquidity planning to monitor the risk of a liquidity bottleneck on an ongoing basis. The binding treasury policy still stipulates that a defined minimum liquidity reserve must be maintained. In the past financial year, sufficient liquidity was available to cover the company's obligations at all times. 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

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

Interest rate risk essentially arises in connection with long-term financial liabilities. Approximately 95% of these 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 based on the current financing structure.

The current phase of low interest rates is also having a positive effect through the conclusion of low-interest acquisition financing, and therefore on the average interest rate for the total financial liability portfolio. The current low interest phase also offers the opportunity for securing low interest rates in the longer term.

Debt risk

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

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 terms of loan-to-value, LEG's net debt is below 50% and therefore still at a conservative level, which means that no negative repercussions are expected.

Fundamental possibility of the conversion of convertible bonds

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

Based on the terms and conditions of the convertible bonds, there is fundamentally the possibility that the convertible bonds can be converted into shares of LEG. In particular, conversion becomes more likely if the price of LEG shares exceeds the relevant conversion price. In the event of conversion, the number of LEG shares outstanding would increase by the number of shares arising from the bonds converted at the time of conversion.

2.4.5 Accounting

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

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, 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 refer to the description of the internal control system in the risk report.

2.4.6 Tax risks

Taxes/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 2005 to 2008; the external audit of key LEG companies for the years 2009 to 2012 was initiated before the end of the year.

The audit of the newly acquired Vitus Group for the years 2007 to 2009 concluded with no significant findings, though the final report has not yet been submitted.

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). Both LEG and the Vitus Group have utilised the escape clause in the past.

2.4.7 Human Resources risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

There are major challenges to HR management owing to demographic and technological shifts, globalisation and changing values. We manage these challenges with contemporary and innovative HR instruments that ensure and develop LEG's appeal and capabilities as an employer in the long term. A key element for us in this regard is the benchmark study "Great Place to Work", in which we successfully took part for the first time in 2014.

2.4.8 Legal risks

Liability/insurance risks

As a result of the LEG Group's admission to the stock market as at 1 February 2013, all its employees and executive bodies must comply with the statutory regulations on insider trading (German Securities Trading Act). Violations mean the personal liability of those concerned and a loss of reputation by LEG. A risk relevant to the LEG Group can arise from this.

Violations of insider trading regulations have serious implications, though there are only few such insider issues at LEG. If information really is insider information, it is only communicated among a select group of participants and the participants are expressly advised that this is confidential. Furthermore, there is a statutory list of insiders and the persons on it receive special training. 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.

Contract risks

No new construction activities have been initiated in the Development segment since the 2009 financial year. Various projects are still being wound up at the current time. This gives rise to risks in connection with warranty, legal disputes and technical problems. Sufficient provisions for these were recognised in previous years. The value of these risks has been steadily and significantly reduced by selling these projects over the last few years.

Legal disputes

In legal disputes, LEG distinguishes between asset and liability proceedings.

Asset 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). Asset rental proceedings (rent receivables) are conducted out of court by the competent handlers (receivables management) and, if unsuccessful, passed on to the contract lawyers. If there are any doubts as to the prospects of success, the Legal department is requested to make a statement before the proceedings are handed off to a lawyer. Asset proceedings with a high disputed value are first examined by the Legal 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 Legal.

Liability proceedings are all those in which receivables are claimed from LEG. Liability proceedings are first always passed on to Legal. 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 Legal.

Other legal risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

General legal risks and, in the event of the risk materialising, the disadvantages to the LEG Group 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 the LEG Group's residential properties. Examples of this include the legislation on the rent control or the new Consumer Rights Directive. The LEG Group has assigned specialist employees to monitor these developments in order to identify risks early on. If these risks occur, LEG minimises their impact through appropriate organisational measures, such as by making corresponding amendments to the relevant agreements or by planning modernisation measures. Provisions and write-downs are recognised as necessary.

2.4.9 Information and communication risks

IT risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

The business processes of LEG companies are largely aided by IT systems. The security of these systems is guaranteed by the standard industry procedures. The availability of LEG's own system components is ensured by corresponding redundancies, while the availability of third-party systems is guaranteed by service agreements with the respective service provider.

2.4.10 Project business risks

Commercial project business risks

The relevant risks subject to a review of the contractually agreed conditions without a legal discussion include 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.

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.

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

LEG is the majority shareholder in a biomass heating power plant.

The complex technology may cause unplanned downtime leading to relevant risks such as lost revenues or unplanned repair expenses. In order to prevent these risks, audits are carried out on a regular basis.

In addition, legal disputes can arise in connection wih shareholdings. These are monitored and handled by Legal.

Other project business risks

According to the LEG risk assessment matrix these are not relevant risks assigned to the "red" assessment range.

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

3. Report on opportunities

The following section describes the material opportunities open to the Group, unchanged since the previous year, in addition to those already mentioned in the risk section.

LEG Immobilien AG is one of the leading listed housing companies and has an extremely high portfolio concentration and a broad-based presence in the most populous German federal state, NRW.

LEG is extremely well positioned to benefit from the positive supply and demand situation on the German housing market and to continue to enjoy above average growth. The number of households is rising, with a corresponding impact on demand for affordable housing. Increased migration is further intensifying this process. Closing the gap between in-place rents and increasing market rents, targeted modernisation measures and the expiry of rent restriction are key components of the expected rental growth. A high degree of management expertise and local knowledge are among the strategic success factors.

One important growth driver will be leveraging additional economies of scale through selective external growth. The acquisition of roughly 19,000 residential units since the IPO confirms the viability of LEG's growth strategy. The goal of acquiring at least 10,000 more residential units in total by the end of 2014 was significantly surpassed. 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.

Additional opportunities for organic growth will result from the targeted implementation of tenant-oriented value-added services. The establishment of multimedia business combines an attractive product range for tenants with the generation of additional income for LEG. The expansion of further tenant-oriented services is under preparation.

In addition to the growth initiatives, opportunities for cost-cutting potential will be actively exploited. This includes reviewing internal processes and structures.

Forecast Report

LEG achieved and, in some cases, exceeded its targets in the fiscal year 2014.

The development of the key performance indicators compared to previous year's forecast:

With FFO I of EUR 163.6 million, the company reached the upper edge of the forecast range, which was upwardly revised during the course of the year. The forecast anticipated earnings of EUR 158 – 161 million plus first additional positive effects from the acquisition of the Vitus NRW portfolio. It was revised in response to the positive course of business and the continued reduction in average financing costs.

In the real estate sector FFO is the relevant earnings key indicator. Other than net income, FFO is not impacted by volatile valuation results that are beyond the influence of the company.

At +3.0%, rental growth per square metre on a like-for-like basis also reached the upper edge of the forecast range, with growth having been forecast at the high end of the 2–3% range. For another key operating performance indicator, the vacancy rate, the aim was to achieve a further improvement on a like-for-like basis. In line with planning, the like-for-like vacancy rate of 2.7% at the reporting date was lower than the prior-year figure of 2.9%.

In terms of the acquisition strategy, the forecast for the last two years was for a cumulative acquisition volume of 10,000 residential units. LEG had acquired around 19,000 residential units by the end of 2014, thereby comfortably exceeding this target.

LEG is committed to a strong balance sheet with an LTV of 55% as a defined upper limit. This target was more than exceeded with an LTV of 47.3% at year-end.

Outlook 2015

For 2015, the majority of economic research institutes expect to see a continuation of the current moderate economic growth, with additional positive impetus provided by the depreciation of the euro and falling energy prices. Accordingly, the IMF is forecasting economic growth of 1.3% for Germany in 2015.

LEG believes that it is well positioned to continue to benefit from the favourable supply and demand situation for affordable housing from a landlord perspective, a situation that is being additionally driven by migration to Germany. As such, LEG expects to see further growth in rental income over the coming years. The favourable financing environment also means that LEG expects to enjoy substantially above-average FFO I and dividend growth.

Based on the positive fundamental conditions, LEG has defined the following forecasts for its performance in 2015.

Forecast for the financial and operating key performance indicators for the Group and the operating businesses:

FFO I

LEG expects to generate FFO I of between EUR 195 and 200 million in 2015. For fiscal year 2016, a further increase to between EUR 223 and 227 million is expected. This forecast does not yet take into account any additional effects from planned future acquisitions.

Rents

In 2015, there will be no significant adjustments to the cost of rent in the rent-restricted portfolio. Accordingly, rent per square metre on a like-for-like basis is expected to increase by between 2.3% and 2.5%.

Vacancy rate

In light of the already extremely low vacancy rate of 2.8% at the reporting date, LEG expects the vacancy rate to remain stable or decline slightly.

Forecast for further relevant indicators:

Maintenance and capital expenditure

LEG adopts a strategic focus on maintaining and selectively expanding the quality of its residential portfolio while ensuring a high degree of capital efficiency. The amount invested in the portfolio in 2015 will be at around EUR 15 per square metre. This reflects the above-average level of investment in the newly acquired properties.

Acquisitions

Thanks to its leading market position in its core market of NRW, LEG believes that it is well positioned to acquire at least a further 5,000 residential units annually in the coming years.

LTV

To ensure a defensive long-term risk profile, an LTV target of around 50% will be applied in future. An LTV of 55% represents the short-term upper limit for financial planning purposes.

NAV

LEG expects a continuing positive value development of the portfolio, roughly in line with rent development, and therefore expects a positive development of NAV. A sustained low interest rate phase, however, can result into lower return requirements and therefore an above-average increase in property valuation.

Dividend

LEG is planning to distribute a dividend of 65% of FFO I to its shareholders on a sustainable 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. It meets the statutory requirements and the recommendations of the German Corporate Governance Code.

Preliminary remarks

With the notarisation of the change in the legal form of the company into a stock corporation on 2 January 2013 (effective from the entry in the commercial register on 11 January 2013), Mr Hegel, Mr Schultz and Mr Hentschel were appointed as members of the Management Board of LEG Immobilien AG by resolution of the Supervisory Board on 2 January 2013.

On 17 January 2013, the Supervisory Board of LEG Immobilien AG resolved employment agreements for the members of the Management Board that came into force on 1 February 2013.

The Annual General Meeting of LEG Immobilien AG on 19 July 2013 resolved to approve the remuneration system for the members of the Management Board in accordance with section 120 (4) AktG.

Remuneration system of the Management Board

The remuneration system takes into account joint and personal 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 paid to the members of the Management Board consists of a fixed component (basic remuneration) and a variable component with a Short-Term Incentive function (STI) and a variable component with a Long-Term Incentive function (LTI).

At the recommendation of the Executive Committee of the Supervisory Board, the Supervisory Board resolved on 25 March 2014 to extend the Management Board employment agreement for Mr Holger Hentschel until 31 December 2016 and to increase the remuneration retroactively as of 1 January 2014 (remuneration components before amendment in brackets).

T26 – Remuneration components

€ thousand	*Thomas Hegel CEO*	*Eckhard Schultz CFO*	*Holger Hentschel COO*
Fixed remuneration	400	360	300 (210)
One-year variable remuneration (STI)	250	240	200 (140)
Multi-year variable remuneration (LTI)	300	280	200 (150)
TOTAL REMUNERATION	**950**	**880**	**700**

Fixed remuneration component

The members of the Management Board receive the basic remuneration in twelve equal monthly payments.

In addition to the basic remuneration, the members of the Management Board receive contractually agreed additional benefits. This primarily relates to the private use of a company car as a benefit in kind.

The members of the Management Board also receive standard contributions in the amount 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 taking the place of the statutory pension scheme, 50 % of the standard contributions to the statutory pension scheme are paid.

The company has also concluded accident insurance that pays out to the dependants in the event of death or invalidity and directors' and officers' liability insurance (D&O insurance) for the members of the Management Board. In accordance with the German Corporate Governance Code, the D&O policy provides for a legally permitted deductible of 10 % up to a maximum of 1.5 times the basic annual remuneration of the respective Management Board member in the event of a claim.

To fulfil the requirements of section 4.2.3 of the German Corporate Governance Code, there is a cap on the substance and amount of the additional benefits granted, including, in particular, the use of a company car.

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. 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

The first three targets each account for 20% and the final target for 40% of the STI. The target STI cannot be exceeded overall.

After the end of the fiscal 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, and the STI is calculated accordingly. 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. They are adjusted pro rata temporis. In the event of extraordinary developments (see section 4.2.3 of the German Corporate Governance Code), the Supervisory Board may, at its discretion, upwardly or downwardly revise the level of target attainment as calculated after the end of the respective fiscal year by up to 20% to reflect these extraordinary developments. If the aforementioned 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 adoption 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

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 during the respective performance period is determined by the Supervisory Board following the adoption of the consolidated financial statements for the last fiscal year 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 resulting gross amount for the respective tranche must be settled and paid to the respective Management Board member no later than 30 days after the adoption of the IFRS consolidated financial statements for the last fiscal year in the performance period.

The following specific targets (target corridors) apply:

LTI 2013

T27 – LTI 2013 / Performance period I

	Target attainment 80%		*Target attainment 100%*		*Target attainment 120%*	
%	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*
Total shareholder return p. a.	3	5	4	7	6	10
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD I Ø P. A.	**4**		**5.5**		**8**	
PERFORMANCE AGAINST EPRA	**90**		**100**		**110**	

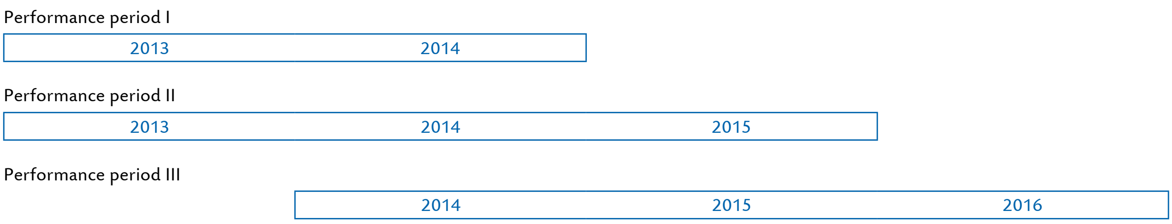
T28 – LTI 2013 / Performance period II

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*
Total shareholder return p. a.	3.2	5.6	5.6	4.0	7.0	7.0	4.8	8.4	8.4
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD II Ø P. A.	**4.8**			**6.0**			**7.2**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T29 – LTI 2013 / Performance period III

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*
Total shareholder return p. a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD III Ø P. A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F9 – Performance periods



2013 = relevant fiscal year

PERIOD UNDER REVIEW LTI

LTI 2014

T30 – LTI 2014 / Performance period I

	Target attainment 80%		*Target attainment 100%*		*Target attainment 120%*	
%	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*
Total shareholder return p. a.	5.6	5.6	7.0	7.0	8.4	8.4
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD I Ø P. A.	**5.6**		**7.0**		**8.4**	
PERFORMANCE AGAINST EPRA	**90**		**100**		**110**	

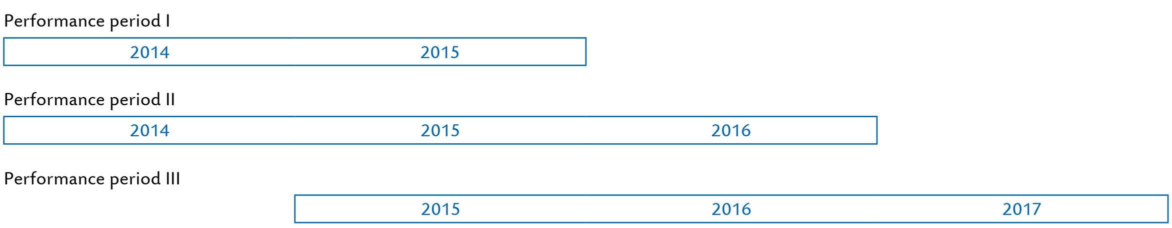
T31 – LTI 2014 / Performance period II

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*
Total shareholder return p. a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD II Ø P. A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T32 – LTI 2014 / Performance period III

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*
Total shareholder return p. a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDE RETURN PERFORMANCE PERIOD III Ø P. A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F10 – Performance periods



2014 = relevant fiscal year

PERIOD UNDER REVIEW LTI

Long-term incentive plan with former shareholders

Since 2011 some members of the Management Board of LEG Immobilien AG have concluded bilateral agreements with the former shareholders of Saturea B.V. and Perry Luxco RE S.à r.l.

As part of the IPO of LEG Immobilien AG, on 17 January 2013 the previous long-term incentive agreements for members of management were dissolved and replaced by new agreements for the Management Board. Such an agreement was also concluded with a new member of the Management Board, Mr Hentschel, who was not a beneficiary of the old agreements.

The new agreements provide for shares in the holding company to be granted by the former shareholders to the members of the Management Board if the IPO results in a certain level of proceeds (less certain costs). The number of shares granted is determined with the aid of an established formula (partly dependent on the IPO price, IPO costs and an individual factor). Under this arrangement, the members of the Management Board are granted a third of their shares 12, 24 and 36 months after a successful IPO. In the event of the early departure of the beneficiary, the outstanding shares lapse by between 20 % and 100 % depending on the reason for departure. The replacement of the old agreements by the new agreements is accounted for as a modification of existing agreements in accordance with IFRS 2.28 f. This requires that the old commitment is accounted for as before, and any incremental fair value arising from the new commitment is also recognised as an expense from the modification date. 94,922 shares were granted to Mr Hegel, 75,938 to Mr Schultz and 9,090 to Mr Hentschel. Please see the comments in the notes.

Total remuneration of the Management Board in 2014

The benefits granted to the Management Board for the 2014 financial year were as follows: Table *T33*

For the successful IPO, the current members of the Management Board were granted a performance bonus in 2013 in the form of an extraordinary payment totalling EUR 0.85 million.

On the basis of the Management Board's assessment of the attainment of performance hurdles, staff costs of EUR 0.5 million (2013: EUR 0.3 million) were recognised for LTI 2013 and 2014 as at 31 December 2014, of which EUR 0.2 million for Thomas Hegel, EUR 0.2 million for Eckhard Schultz and EUR 0.1 million for Holger Hentschel.

T33 – Remuneration and benefits earned

	Thomas Hegel CEO				*Eckhard Schultz CFO*				*Holger Hentschel COO*			
€ thousand	**2014**	*2014 min.*	*2014 max.*	*2013*	**2014**	*2014 min.*	*2014 max.*	*2013*	**2014**	*2014 min.*	*2014 max.*	*2013*
Fixed remuneration	400	400	400	395[1]	360	360	360	355[1]	300[2]	300	300	207[1]
Additional benefits	29	29	29	27[1]	27	27	27	13[1]	20	20	20	16[1]
TOTAL FIXED REMUNERATION COMPONENTS	**429**	**429**	**429**	**422**	**387**	**387**	**387**	**368**	**320**	**320**	**320**	**223**
Performance bonus	0	0	0	300	0	0	0	300	0	0	0	250
One-year variable remuneration (STI)	250	0	250	250	240	0	240	240	200[2]	0	200	140
Multi-year variable remuneration (LTI)	153	0	300	4,472	143	0	280	3,616	102	0	200	353
LTI 2013 (until 2016)	0	0	0	295	0	0	0	275	0	0	0	148
LTI 2014 (until 2017)	153	0	300	0	143	0	280	0	102[2]	0	200	0
LTIP former shareholders	0	0	0	4,177[3]	0	0	0	3,341[3]	0	0	0	205[3]
TOTAL VARIABLE REMUNERATION COMPONENTS	**403**	**0**	**550**	**5,022**	**383**	**0**	**520**	**4,156**	**302**	**0**	**400**	**743**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**832**	**429**	**979**	**5,444**	**770**	**387**	**907**	**4,524**	**622**	**320**	**720**	**966**
Pension costs	0	0	0	0	20	20	20	20	7	7	7	5
TOTAL REMUNERATION	**832**	**429**	**979**	**5,444**	**790**	**407**	**927**	**4,544**	**629**	**327**	**727**	**971**

[1] Fixed remuneration for 2013 also includes the remuneration under the interim Management Board agreement that was in place from 2 January to 1 February 2013
[2] Retroactive contract adjustments as at 1 January 2014
[3] Inclusion of benefits from third parties on account of GCGC clarification in June 2014

A total expense of EUR 0.4 million was recognised in 2014 for the LTIP with the former shareholders (2013: EUR 0.6 million), of which EUR 0.0 million for Thomas Hegel, EUR 0.3 million for Eckhard Schultz and EUR 0.1 million for Holger Hentschel.

T34 – Remuneration and benefits paid

	Thomas Hegel CEO		*Eckhard Schultz CFO*		*Holger Hentschel COO*	
€ thousand	**2014**	*2013*	**2014**	*2013*	**2014**	*2013*
Fixed remuneration	400	395	360	355[1]	300	207
Additional benefits	29	27	27	13[1]	20	16
TOTAL FIXED REMUNERATION COMPONENTS	**429**	**422**	**387**	**368**	**320**	**223**
Performance bonus	0	300	0	300	0	250
One-year variable remuneration (STI)[2]	250	293	240	293	140	78
Multi-year variable remuneration (LTI)	1,386	0	1,109	0	133	0
LTI 2013 and 2014	0	0	0	0	0	0
LTIP former shareholders	1,386	0	1,109	0	133	0
TOTAL VARIABLE REMUNERATION COMPONENTS	**1,636**	**593**	**1,349**	**593**	**273**	**328**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**2,065**	**1,015**	**1,736**	**961**	**593**	**551**
Pension costs	0	0	20	20	7	5
TOTAL REMUNERATION	**2,065**	**1,015**	**1,756**	**981**	**600**	**556**

[1] Fixed remuneration for 2013 also includes the remuneration under the interim Management Board agreement that was in place from 2 January to 1 February 2013
[2] Final payment for previous financial year

Total remuneration for the Management Board in 2014 was as follows:

T35 – Total remuneration

	Thomas Hegel CEO		*Eckhard Schultz CFO*		*Holger Hentschel COO*		*Sum*	
€ thousand	**2014**	*2013*	**2014**	*2013*	**2014**	*2013*	**2014**	*2013*
Fixed remuneration	400	395	360	355	300[2]	207	1,060	957
Additional benefits	29	27[1]	27	13[1]	20	16[1]	76	56
TOTAL FIXED REMUNERATION COMPONENTS	**429**	**422**	**387**	**368**	**320**	**223**	**1,136**	**1,013**
Performance bonus	0	300	0	300	0	250	0	850
One-year variable remuneration (STI)	250	250	240	240	200[2]	140	690	630
Multi-year variable remuneration (LTI)	153	295	143	275	102[2]	148	398	718
TOTAL VARIABLE REMUNERATION COMPONENTS	**403**	**845**	**383**	**815**	**302**	**538**	**1,088**	**2,198**
TOTAL REMUNERATION	**832**	**1,267**	**770**	**1,183**	**622**	**761**	**2,224**	**3,211**

[1] Fixed remuneration for 2013 also includes the remuneration under the interim Management Board agreement that was in place from 2 January to 1 February 2013
[2] Retroactive contract adjustments as at 1 January 2014

No loans or advances were granted or extended to the members of the Supervisory Board in the fiscal year 2014.

Retirement benefits

Company pension scheme

With effect from 1 February 2013, LEG Immobilien AG assumed the occupational pension commitment for the Management Board member Mr Holger Hentschel from LEG Wohnen NRW GmbH (in accordance with section 4 (2) no. 1 of the German Occupational Pensions Act (BetrAVG)). 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 325,188 as of 31 December 2014 (2013: EUR 203,654). The recognised staff costs in 2014 amounted to EUR 7,000 (2013: EUR 5,000).

Mr 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 391,658. There are also benefits from profit participation.

On 23 April 2013, the Supervisory Board resolved to establish an employer-financed pension commitment for Mr Eckhard Schultz and Mr Holger Hentschel via a provident fund by way of a defined contribution plan with retrospective effect from 1 February 2013. 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 dependants.

When Mr Eckhard Schultz reaches retirement age in 2032, the payments will take the form of a non-contributory monthly pension of EUR 544 or a lump-sum payment of EUR 139,249.

When Mr Holger Hentschel reaches retirement age in 2033, the payments will take the form of a non-contributory monthly pension of EUR 580 or a lump-sum payment of EUR 153,512.

No provisions were recognised for Mr Thomas Hegel or Mr Eckhard Schultz as of 31 December 2014

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 good cause falling within the responsibility of the Management Board member, the member shall not be entitled to receive any payments.

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.

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.

The members of the Supervisory Board each receive fixed annual basic remuneration of EUR 50,000. The Chairman of the Supervisory Board receives double this amount (EUR 100,000), while the Deputy Chairman receives one and a half times this amount (EUR 75,000).

The members of the Audit Committee receive additional fixed annual remuneration of EUR 10,000; the Chairman of the Audit Committee receives double this amount (EUR 20,000).

Members of the Supervisory Board who sit on one or more other committees of the Supervisory Board (e.g. the Executive Committee) that meet at least once per year receive additional fixed annual remuneration of EUR 2,500 for their membership of each committee; the Chairman of the respective committee receives EUR 5,000.

At its meeting on 25 March 2014, the Supervisory Board of LEG Immobilien AG resolved to dissolve the Acquisition Committee effective 2 April 2014 and transfer its duties to the Executive Committee.

No remuneration is paid to the members or the Chairman of the Nomination Committee.

The total of all remuneration in accordance with Article 8.10 of the Articles of Association, plus remuneration for membership of the supervisory boards or similar executive bodies of Group companies, may not exceed EUR 100,000 per Supervisory Board member per calendar year, regardless of the number of committee memberships and positions held.

The company reimburses the members of the Supervisory Board for appropriate expenses arising in the exercise of their office. 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 concluded directors' and officers' liability insurance (D&O insurance) for the members of the Supervisory Board with an appropriate insurance amount and no deductible. At its meeting on 10 July 2013, the Supervisory Board resolved to comply with the recommendation of the German Corporate Governance Code in the future and to include a deductible with effect from 1 January 2014. 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.

On 25 February 2014, the Supervisory Board members Ms Heather Mulahasani, Mr James Garman and Dr Martin Hintze stepped down from their positions with effect from 2 April 2014. Also on 25 February 2014, Richard Spencer, Michael Furth and Patrick Tribolet resigned as alternate members of the Management Board effective immediately.

At its meeting on 25 March 2014, the Supervisory Board of LEG Immobilien AG elected Mr Nathan Brown as a member of the Executive Committee effective 3 April 2014; Dr Johannes Ludewig was elected as a substitute member of the Executive Committee effective 3 April 2014. The Supervisory Board also elected Mr Nathan Brown as a member of the Nomination Committee effective 3 April 2014; Dr Johannes Ludewig was elected as a substitute member of the Nomination Committee with immediate effect. For the Audit Committee, Mr Jürgen Schulte-Laggenbeck, who stepped down as an ordinary member of the Audit Committee with immediate effect, was elected as a substitute member of the Audit Committee. Mr Stefan Jütte was also elected as Chairman of the Audit Committee, while Dr Jochen Scharpe was elected as Deputy Chairman of the Audit Committee.

T36 – Breakdown of Supervisory Board remuneration
Remuneration paid or to be paid to the members of the Supervisory Board for the fiscal year 2014

Name of member	*Current committee membership*	*Remuneration in € (net)*
Michael Zimmer (Chairman)	Chairman of the Executive Committee	5,000
	Chairman of the Nomination Committee	0
	Chairman of the Acquisition Committee	1,278
	Basic Supervisory Board remuneration	100,000
		100,000 (limited to € 100,000 in accordance with Articles of Association)
Stefan Jütte (Deputy Chairman)	Member of the Executive Committee	2,500
	Member of the Nomination Committee	0
	Member of the Audit Committee (Chairman since 25 March 2014)	17,639[1]
	Member of the Acquisition Committee	639
	Basic Supervisory Board remuneration	75,000
		95,778
Dr Martin Hintze (Resigned as member effective 2 April 2014)	–	–
	Basic Supervisory Board remuneration	**12,778**[1]
Dr Johannes Ludewig	Substitute member of the Executive Committee (since 3 April 2014)	1,854[1]
	Basic Supervisory Board remuneration	50,000
	Substitute member of the Nomination Committee (since 25 March 2014)	0[1]
		51,854
Dr Jochen Scharpe[2]	Chairman of the Audit Committee (until 25 March 2014)	4,722[1]
	Deputy Chairman of the Audit Committee (since 25 March 2014)	7,639[1]
	Basic Supervisory Board remuneration	50,000
		62,000 (limited to € 100,000 in accordance with Articles of Association[2])
Jürgen Schulte-Laggenbeck	Member of the Audit Committee (until 25 March 2014) Substitute member of the Audit Committee (since 25 March 2014)	2,361[1]
	Basic Supervisory Board remuneration	50,000
		52,361
Nathan Brown	Member of the Audit Committee	10,000
	Member of the Acquisition Committee	639
	Basic Supervisory Board remuneration	50,000
	Member of the Nomination Committee (since 3 April 2014)	0[1]
	Member of the Executive Committee (since 3 April 2014)	1,861[1]
		62,500
James Garman (Resigned as member effective 2 April 2014)	Member of the Executive Committee	639[1]
	Member of the Nomination Committee	0[1]
	Member of the Acquisition Committee	639[1]
	Basic Supervisory Board remuneration	12,778[1]
		14,056
Heather Mulahasani (Resigned as member effective 2 April 2014)	–	–
	Basic Supervisory Board remuneration	**12,778**[1]

[1] Remuneration on a pro rata basis
[2] In accordance with the limitation on remuneration for work on executive bodies at the LEG Group to EUR 100,000 as prescribed in the Articles of Association, LEG Immobilien AG pays remuneration of only EUR 62,000. In total, Dr Scharpe received EUR 100,000 for his work on executive bodies at the LEG Group (LEG Immobilien AG, LEG Wohnen NRW and LEG NRW) for the 2014 financial year.

The total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.5 million in 2014 (2013: EUR 0.6 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the fiscal year 2014.

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289A HGB

As a listed stock corporation, LEG Immobilien AG issues a corporate governance declaration in accordance with section 289a 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 going beyond statutory requirements and (iii) a description of the working methods of the Management Board and the Supervisory Board plus the composition and working methods of their committees.

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 2014:

"The Management Board and the Supervisory Board of LEG Immobilien AG hereby declare that LEG Immobilien AG has complied with the recommendations of the German Commission of the German Corporate Governance Code (the "Code") in the version dated 13 May 2013 in full since 1 January 2014. In the period from the submission of the last declaration of compliance until 1 January 2014, LEG Immobilien AG complied with the Code in full with the exception of section 3.8 (3) (no deductible in D&O insurance for members of the Supervisory Board) and section 5.4.2 sentence 4 (directorships or similar positions of Supervisory Board members at key competitors of the company).

The amended version of the Code as of 24 June 2014 came into effect following its publication in the official section of the German Electronic Federal Gazette (Bundesanzeiger) on 30 September 2014. The Management Board and the Supervisory Board of LEG Immobilien AG hereby declare that LEG Immobilien AG has complied with the recommendations of the amended version of the Code in full since 30 September 2014.

Furthermore, the Management Board and the Supervisory Board of LEG Immobilien AG intend to continue to comply with the recommendations of the Code in full.

Section 3.8 (3) of the Code: Deductible in D&O insurance for members of the Supervisory Board of LEG Immobilien AG

Section 3.8 (3) of the Code recommends the arrangement of a deductible if the company has taken out D&O insurance for the Supervisory Board. This deductible should amount to at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the Supervisory Board member. A corresponding deductible was introduced when the amended D&O insurance policy of LEG Immobilien AG came into force on 1 January 2014.

Section 5.4.2 of the Code: Membership of a Supervisory Board member in the supervisory board of a key competitor

Supervisory Board members should not exercise directorships or similar positions or advisory tasks for important competitors of the enterprise (section 5.4.2 of the Code). Dr Scharpe was and is a member of the Supervisory Board of both LEG Immobilien AG and, until 31 December 2013, GSW Immobilien AG, Berlin. Since Dr Scharpe stepped down from the Supervisory Board of GSW Immobilien AG, the recommendations set out in section 5.4.2 of the Code have been complied with in full.

Dusseldorf, November 2014

The Management Board and 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.

Social Charter

As part of its Social Charter, LEG Immobilien AG recognises and is committed to a number of conditions and measures that serve to protect its tenants, employees and real estate holdings. Further information can be found on page 68.

Corporate Governance Code of the German Real Estate Industry Association

LEG Immobilien AG is a member of the Corporate Governance Initiative of the German Real Estate Industry Association (Deutsche Immobilienwirtschaft e. V.). At www.immo-initiative.de, the Corporate Governance Initiative of the German Real Estate Industry Association has published a Corporate Governance Code of the Real Estate Industry Association (as of June 2014, "ICGK") containing recommendations that go beyond those of 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 section 5.3.2i – the recommendations of the ICGK should also be complied with.

Section 5.3.2.i of the ICGK recommends that the Supervisory Board or 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 monitor and review the preparation of the annual financial statements and, in connection with this, the valuation of the property portfolio comprehensively in accordance with the statutory provisions and the recommendations of the German Corporate Governance Code. 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.

Code of Conduct

The LEG Group has established a Code of Conduct with the aim of minimising the risk of compliance breaches. To this end, the LEG Group has not only drawn up a Code of Conduct that must be acknowledged by its business partners, but has also appointed an anti-corruption officer and an ombudsman.

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 19 November 2014. 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 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.

After Saturea B.V. placed 28.65% of its shares in LEG Immobilien AG on the capital market in January 2014, its equity interest in LEG Immobilien AG fell to less than 1%. In early March 2014, three members of the Supervisory Board who were allocated to the former major shareholder Saturea B.V. stepped down from their positions with effect from 2 April 2014. The Annual General Meeting on 25 June 2014 resolved to reduce the number of Supervisory Board members to six. In accordance with the Articles of Association, the Supervisory Board of LEG Immobilien AG has had six members since this date. The term of all current members of the Supervisory Board ends after the 2018 Annual General Meeting.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board work in close cooperation 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 it 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 four committees in the fiscal year 2014: the Executive Committee, the Nomination Committee, the Audit Committee and the Acquisition Committee. The Acquisition Committee was dissolved effective 2 April 2014 and its duties transferred to the Executive 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

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

Since 3 April 2014, the Executive Board has also performed the duties of the Acquisition Committee as described below.

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte, and Mr Nathan Brown (since 3 April 2014). Mr James Garman was a member of the Executive Committee until 2 April 2014. Dr Johannes Ludewig has been a substitute member of the Executive Committee since 3 April 2014. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee.

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 and Mr Nathan Brown (since 3 April 2014)); Mr James Garman was a member of the Nomination Committee until 2 April 2014. Dr Johannes Ludewig has been a substitute member of the Nomination Committee since 25 March 2014. 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 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. In place of the Supervisory Board, the Audit Committee resolves the approval of agreements with auditors on additional advisory services to the extent that these agreements require approval in accordance with the Articles of Association or the Rules of Procedure for the Management Board.

The members of the Audit Committee are Mr Stefan Jütte (Chairman; since 25 March 2014), Dr Jochen Scharpe (Deputy Chairman (since 25 March 2014); previously Chairman of the Audit Committee) and Mr Nathan Brown (since 25 March 2014). Mr Jürgen Schulte-Laggenbeck was a member of the Audit Committee until 25 March 2014; since this date, he has been a substitute member of the Audit Committee. The Chairman of the Audit Committee is independent and has special expertise and experience in the application of accounting policies and internal control procedures.

Acquisition Committee

The Acquisition Committee is responsible for preparing resolutions for the Supervisory Board on the acquisition of property portfolios. To reflect the particular importance of portfolio acquisitions for LEG and the cost and effort involved, the Supervisory Board meeting on 23 April 2013 resolved in favour of the establishment of an Acquisition Committee. The Acquisition Committee was dissolved effective 2 April 2014 and its duties transferred to the Executive Committee.

Until this date, the members of the Acquisition Committee were Mr Michael Zimmer, Mr Stefan Jütte, Mr James Garman and Mr Nathan Brown. Mr Zimmer was the Chairman of the Acquisition Committee. At all Supervisory Board meetings subsequent to the first meeting of the Acquisition Committee, the report by the Chairman of the Acquisition Committee formed a key part of the discussions on the acquisition of additional portfolios.

Detailed information on the work of the Supervisory Board and the composition of the committees of the Supervisory Board in the fiscal year 2014 can be found in the Report of the Supervisory Board in this Annual Report (page 39).

The corporate governance declaration in accordance with section 289a HGB, including the above declaration in accordance with section 161 AktG and the other disclosures on corporate governance, can also be found on the website of LEG Immobilien AG at www.leg-nrw.de.

TAKEOVER DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB

Composition of issued capital

There are 57,063,444 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.

After partial utilization, the Authorized Capital amounts to EUR 22,381,722.00. The Contingent Capital amounts to EUR 26,481,722.00.

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 of 31 December 2014, BlackRock, Inc. and its affiliated companies held more than 10% of the share capital of the company, and hence more than 10% of the voting rights (notification in accordance with section 21 (1) sentence 1 no. 6 of the German Securities Trading Act (WpHG) in conjunction with section 22 (1) sentence 2 WpHG as of 25 August 2014 and notification in accordance with section 21 WpHG in conjunction with section 22 WpHG as of 25 September 2014). As a material investor, BlackRock notified LEG of the objectives pursued with the investment and the origin of the funds used in the acquisition in accordance with section 27a WpHG. LEG published this notification on 21 February 2014.

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 and buy back 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 22,381,722.00 by issuing up to 22,381,722 new shares until 24 June 2019.

The share capital is contingently increased by up to EUR 26,481,722.00 through the issue of up to 26,481,722 new shares. The contingent capital increase is subject to the proviso that the conditions for the conversion rights issued in 2014 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 January 2013, 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 of 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, may not account for more than 10% of the share capital at any time. The authorisation applies until 16 January 2018 and may 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) either on the stock market or 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.

If the shares are acquired on the stock market, the acquisition price (not including incidental costs of acquisition) must be within 10% (higher or lower) of the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last ten 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 exceed by 10% or be 20% less than the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last ten trading days before the publication of the offer or, if acquired otherwise, before the acquisition.

The authorisation can be exercised for any legally permissible purpose. 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 real estate, real estate portfolios and receivables from the company, and (vi) to serve warrants, convertible bonds or profit participation rights with conversion or option rights/obligations. The subscription rights of shareholders is excluded in certain cases or can be excluded for fractional amounts in the case of subscription offers to shareholders.

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, LEG Immobilien AG issued a convertible bond with a volume of EUR 300 million. 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.

Agreements with the parent company for the event of a change of control following a takeover bid

The financing agreements in place stipulate that a change of control of LEG NRW, which bundles the real estate companies of the LEG Group, requires the approval of the financing banks.

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

No compensation agreements have been concluded with employees or members of the Management Board in the event of a takeover bid.

4

FOUR

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T37 – Consolidated statement of financial position
Assets

€ million	*Notes*	**31.12.2014**	*31.12.2013*
NON-CURRENT ASSETS		**6,086.9**	**5,262.2**
Investment properties	E.1	5,914.3	5,163.4
Prepayments for investment properties		16.8	6.9
Property, plant and equipment	E.2	64.6	66.7
Intangible assets	E.3	64.7	4.3
Investments in associates	E.4	8.9	9.2
Other financial assets	E.5	2.4	3.6
Receivables and other assets	E.6	2.5	2.8
Deferred tax assets	E.15	12.7	5.3
Current assets		**165.8**	**144.5**
Real estate inventory and other inventory	E.7	6.2	10.1
Receivables and other assets	E.6	27.1	21.0
Income tax receivables	E.15	2.6	2.7
Cash and cash equivalents	E.8	129.9	110.7
Assets held for sale	**E.9**	**58.4**	**16.4**
TOTAL ASSETS		**6,311.1**	**5,423.1**

Equity and liabilities

€ million	*Notes*	**31.12.2014**	*31.12.2013*
EQUITY	E.10	**2,491.6**	**2,276.1**
Share capital		57.1	53.0
Capital reserves		578.9	440.9
Cumulative other reserves		1,841.3	1,754.9
Equity attributable to shareholders of the parent company		2,477.3	2,248.8
Non-controlling interests		14.3	27.3
Non-current liabilities		**3,158.8**	**2,840.6**
Pension provisions	E.11	158.3	112.3
Other provisions	E.12	14.6	12.7
Financing liabilities	E.13	2,546.5	2,396.7
Other liabilities	E.14	114.6	63.5
Tax liabilities	E.15	16.5	24.2
Deferred tax liabilities	E.15	308.3	231.2
Current liabilities		**660.7**	**306.4**
Pension provisions	E.11	6.3	6.1
Other provisions	E.12	17.5	17.9
Provisions for taxes	E.15	0.4	0.0
Financing liabilities	E.13	413.8	187.0
Other liabilities	E.14	206.1	77.6
Tax liabilities	E.15	16.6	17.8
TOTAL EQUITY AND LIABILITIES		**6,311.1**	**5,423.1**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T38 – Consolidated statement of comprehensive income

€ million	*Notes*	**01.01. – 31.12.2014**	*01.01. – 31.12.2013*
Net rental and lease income	F.1	**284.9**	**257.7**
Rental and lease income		576.8	532.1
Cost of sales in connection with rental lease income		–291.9	–274.4
Net income from the disposal of investment properties	F.2	**–1.7**	**–1.7**
Income from the disposal of investment properties		37.6	15.2
Carrying amount of the disposal of investment properties		–37.2	–15.0
Cost of sales in connection with disposed investment properties		–2.1	–1.9
Net income from the remeasurement of investment properties	F.3	**143.0**	**81.6**
Net income from the disposal of real estate inventory	F.4	**–3.1**	**–3.1**
Income from the real estate inventory disposed of		5.7	9.0
Carrying amount of the real estate inventory disposed of		–5.0	–7.6
Costs of sales of the real estate inventory disposed of		–3.8	–4.5
Net income from other services	F.5	**–0.3**	**2.3**
Income from other services		9.3	9.7
Expenses in connection with other services		–9.6	–7.4
Administrative and other expenses	F.6	**–41.6**	**–51.5**
Other income and expenses		**0.5**	**0.2**
OPERATING EARNINGS		**381.7**	**285.5**
Interest income	F.7	1.2	1.0
Interest expenses	F.8	–128.5	–131.4
Net income from investment securities and other equity investments		7.1	0.8
Net income from associates		0.3	0.3
Net income from the fair value measurement of derivatives		–42.3	2.4
EARNINGS BEFORE INCOME TAXES		**219.5**	**158.6**
Income taxes	F.9	–62.7	–21.7
NET PROFIT OR LOSS FOR THE PERIOD		**156.8**	**136.9**
Change in amounts recognised directly in equity			
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		**–30.9**	**25.4**
Change in unrealised gains/(losses)		–42.1	33.5
Income taxes on amounts recognised directly in equity		11.2	–8.1
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		**–22.2**	**5.8**
Change in unrealised gains/(losses)		–31.8	8.3
Income taxes on amounts recognised directly in equity		9.6	–2.5
TOTAL COMPREHENSIVE INCOME		**103.7**	**168.1**
Net profit or loss for the period attributable to:			
Non-controlling interests		1.0	1.7
Parent shareholders		155.8	135.2
Total comprehensive income attributable to:			
Non-controlling interests		0.5	2.0
Parent shareholders		103.2	166.1
EARNINGS PER SHARE (BASIC AND DILUTED) IN €	F.10	**2.89**	**2.55**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

T39 – Statement of changes in consolidated equity

			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*	*Noncontrolling interests*	*Consolidated equity*
AS OF 01.01.2013	**53.0**	**436.1**	**1,653.4**	**–22.3**	**–59.6**	**2,060.6**	**24.9**	**2,085.5**
Net profit or loss for the period	–	–	135.2	–	–	135.2	1.7	136.9
Other comprehensive income	–	–	–	5.7	25.2	30.9	0.3	31.2
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**135.2**	**5.7**	**25.2**	**166.1**	**2.0**	**168.1**
Change in consolidated companies	–	–	–	–	–	–	–	–
Capital increase	–	40.5	39.0	–	–	79.5	0.5	80.0
Withdrawals from reserves	–	–39.0	–	–	–	–39.0	–0.1	–39.1
Distributions	–	–	–21.7	–	–	–21.7	–	–21.7
Contribution in connection with Management and Supervisory Board	–	3.3	–	–	–	3.3	–	3.3
AS OF 31.12.2013	**53.0**	**440.9**	**1,805.9**	**–16.6**	**–34.4**	**2,248.8**	**27.3**	**2,276.1**
AS OF 01.01.2014	**53.0**	**440.9**	**1,805.9**	**–16.6**	**–34.4**	**2,248.8**	**27.3**	**2,276.1**
Net profit or loss for the period	–	–	155.8	–	–	155.8	1.0	156.8
Other comprehensive income	–	–	–	–21.9	–30.7	–52.6	–0.5	–53.1
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**155.8**	**–21.9**	**–30.7**	**103.2**	**0.5**	**103.7**
Change in consolidated companies	–	–	13.9	–	–	13.9	–14.4	–0.5
Capital increase	4.1	198.8	62.0	–	–	264.9	0.9	265.8
Withdrawals from reserves	–	–62.0	–1.1	–	–	–63.1	–	–63.1
Distributions	–	–	–91.6	–	–	–91.6	–	–91.6
Contribution in connection with Management and Supervisory Board	–	1.2	–	–	–	1.2	–	1.2
AS OF 31.12.2014	**57.1**	**578.9**	**1,944.9**	**–38.5**	**–65.1**	**2,477.3**	**14.3**	**2,491.6**

CONSOLIDATED STATEMENT OF CASH FLOWS

T40 – Consolidated statement of cash flows

€ million	*Notes*	**01.01.–31.12.2014**	*01.01.–31.12.2013*
Operating earnings		**381.7**	**285.5**
Depreciation on property, plant and equipment and amortisation on intangible assets		8.6	8.7
(Gains)/Losses from the remeasurement of investment properties		–143.0	–81.6
(Gains)/Losses from the disposal of assets held for sale and investment properties		–0.4	–0.1
(Decrease)/Increase in pension provisions and other non-current provisions		1.1	–0.1
Other non-cash income and expenses		6.7	8.3
(Decrease)/Increase in receivables, inventories and other assets		–0.3	12.0
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions		–5.6	–29.8
Interest paid		–95.5	–91.9
Interest received		1.0	0.9
Received income from investments		7.9	1.5
Taxes received		1.4	0.5
Taxes paid		–16.7	–11.8
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**146.9**	**102.1**
Cash flow from investing activities			
Investments in investment properties		–226.2	–177.8
Proceeds from disposals of non-current assets held for sale and investment properties		70.1	15.2
Investments in intangible assets and property, plant and equipment		–3.1	–1.3
Proceeds from disposals of financial assets and other assets		0.3	0.6
Acquisition of shares in consolidated companies		–448.5	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**–607.4**	**–163.3**
Cash flow from financing activities			
Borrowing of bank loans		208.8	413.0
Repayment of bank loans		–127.3	–350.2
Repayment of lease liabilities		–3.2	–2.9
Issue of convertible bond		296.1	–
Capital contribution		202.9	–
Other payments		–6.0	–
Distribution to shareholders		–91.6	–21.7
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**479.7**	**38.2**
Change in cash and cash equivalents		**19.2**	**–23.0**
Cash and cash equivalents at beginning of period		110.7	133.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**129.9**	**110.7**
Composition of cash and cash equivalents			
Cash in hand, bank balances		129.9	110.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**129.9**	**110.7**

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 108,020 units (residential and commercial) on 31 December 2014.

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 and the strategic acquisition of residential portfolios in order to generate long-term value enhancement.

LEG Immo went public on 1 February 2013 with the initial listing of its shares in the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

These consolidated financial statements were approved for publication by LEG Immo's Management Board on 19 March 2015.

2. Consolidated financial statements

The consolidated financial statements of the LEG Group 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 315a (3) 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 the recognition of 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 the IFRS requires estimates and judgments on the part of the management. Areas with greater scope for judgment 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 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 has been submitted by non-controlling interests 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.

No subsidiaries have exercised the exemption provisions set out in section 264 (3) HGB or section 264b HGB.

B. New accounting standards

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

Amendments to the following standards have been made:

IFRIC 21 Levies, published in May 2013, clarifies when to recognise a liability for a levy imposed by a government. It is effective for the first time for annual periods beginning on or after 17 June 2014. It is assumed that this will not have a material effect on the consolidated financial statements of the LEG Group.

In November 2013 the IASB published an amendment of IAS 19: Employee Benefits: Defined Benefit Plans: Employee Contributions. This amendment now clarifies the accounting for contributions from employees or third parties contained in the conditions of a defined benefit plan that are linked to service. This amendment will not affect the LEG Group. The amendment is effective for annual periods beginning on or after 1 July 2014.

In December 2012 the IASB published Improvements to IFRS 2010 – 2012. They are the fifth collection of amendments and relate to six existing IFRS. The amendments are effective for reporting periods beginning on or after 1 July 2014. They will not affect the LEG Group.

In December 2013 the IASB published Improvements to IFRS 2011-2013. They are the sixth collection of amendments and relate to four existing IFRS. The amendments are effective for reporting periods beginning on or after 1 July 2014. It is assumed that they will not have a material effect on the LEG Group.

In September 2014 the IASB published Improvements to IFRS 2012-2014. They are the seventh collection of amendments and relate to four existing IFRS. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have a material effect on the LEG Group.

In May 2014 the IASB published IFRS 11 Joint Arrangements. It clarifies that acquisitions of interests in joint operations that constitute a business as defined in IFRS 3, Business Combinations, must be accounted for in accordance with the principles of accounting for business combinations in line with IFRS 3 and other applicable IFRS, with the exception of those principles that conflict with the guidance in IFRS 11. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have a material effect on the LEG Group.

In January 2014 the IASB published IFRS 14 Regulatory Deferral Accounts. The regulations of the standards allow entities preparing IFRS financial statements for the first time in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, to retain regulatory deferral accounts previously recognised under national GAAP in connection with price regulating activities and to continue accounting for them in line with previous accounting policies. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016 and are not relevant to the LEG Group.

In May 2014 the IASB published amendments to IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets. The aim of these amendments is to clarify which methods are appropriate for depreciation on property, plant and equipment and amortisation of intangible assets. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have a material effect on the LEG Group.

In May 2014 the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces 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. Subject to EU endorsement, the standard is effective for reporting periods beginning on or after 1 January 2017. The LEG Group is reviewing the impact of the standard.

In June 2014 the IASB published amendments to IAS 16, Property, Plant and Equipment, and IAS 41, Agriculture, on accounting for bearer plants. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have any effect on the LEG Group.

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. IFRS 9 contains revised regulations on the classification and measurement of financial assets and a new loss allowance model that also takes expected losses into account in the calculation of loss allowances. Furthermore, it also includes the new hedge accounting regulations already published in November 2013. The standard therefore replaces all earlier versions of IFRS 9 and, subject to EU endorsement, is effective for the first time for reporting periods beginning on or after 1 January 2018. The adoption of IFRS 9 is expected to result in changes to the accounting of financial instruments at the LEG Group.

In August 2014 the IASB published amendments to IAS 27 Separate Financial Statements. As a result of the amendments, investments in subsidiaries, joint ventures and associates can also be accounted for using the equity method in IFRS separate financial statements in future. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have any effect on the LEG Group.

In September 2014 the IASB published amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments concern a conflict between the provisions of IAS 28, Investments in Associates and Joint Ventures, and IFRS 10, Consolidated Financial Statements. They clarify that, in transactions with associates or joint ventures, the extent to which a gain or loss is recognised is dependent on whether the assets sold or contributed constitute a business. The date of first-time adoption has been postponed by the IASB. It is assumed that they will not have any effect on the LEG Group.

In December 2014 the IASB published amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities – Applying Consolidation Exceptions. The amendments address issues in connection with the application of consolidation exceptions for investment entities. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. It is assumed that they will not have any effect on the LEG Group.

In December 2014 the IASB published amendments to IAS 1, Disclosure Initiative. The amendments are intended to remove boundaries with regard to judgements by the preparer in the presentation of the financial statements. Subject to the approval of the EU, the amendments are effective for reporting periods beginning on or after 1 January 2016. They will not affect the LEG Group.

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

In May 2011 the IASB published the amendment to IAS 27, Separate Financial Statements. Following the adoption of IFRS 10 and IFRS 12, the scope of IAS 27 is limited to accounting for investments in subsidiaries, associates and joint ventures in separate financial statements. The standard is effective for the first time in the EU for reporting periods beginning on or after 1 January 2014. It has no material effect on the LEG Group.

In May 2011 the IASB published IFRS 10, Consolidated Financial Statements. The standard replaces IAS 27 on group accounting and SIC-12 on the consolidation of special-purpose entities. The standard is effective for the first time in the EU for reporting periods beginning on or after 1 January 2014. It has no material effect on the LEG Group.

IFRS 11, Joint Arrangements, published by the IASB in May 2011, replaces IAS 31 and SIC-13. The standard is effective for the first time in the EU for reporting periods beginning on or after 1 January 2014. It does not affect the LEG Group.

The IASB also published IFRS 12, Disclosure of Interests in Other Entities, in May 2011. IFRS 12 provides uniform guidance for the disclosure requirements for group accounting. The standard is effective for the first time in the EU for reporting periods beginning on or after 1 January 2014. This has affected the disclosures in the notes of the LEG Group.

The amendment to IAS 28, Investments in Associates and Joint Ventures, was also published in May 2011. The amendment to IAS 28 is effective in the EU for reporting periods beginning on or after 1 January 2014. It has no material effect on the financial statements of the LEG Group.

The amendments to IAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities, that were published in December 2011 clarify the criteria for the offsetting of financial instruments. The amendment to IAS 32 is effective in the EU for reporting periods beginning on or after 1 January 2014. This has no material effect in terms of recognition and measurement for the LEG Group.

In June 2012 the IASB published an amendment to the transition regulations for the first-time adoption of IFRS 10, IFRS 11 and IFRS 12: Transition Guidance.

Under the new regulations, control is assessed at the start of first-time adoption and not from the start of the comparative period. Furthermore, it is no longer necessary to disclose comparative information on unconsolidated structured entities. The amendment is effective for reporting periods beginning on or after 1 January 2014. It does not affect the LEG Group.

The amendments to IFRS 10, IFRS 12 and IAS 27 concerning investment entities that were published in October 2012 are effective for reporting periods beginning on or after 1 January 2014.

The amendments require that investment entities account for their investments in subsidiaries in accordance with IAS 39 rather than IFRS 10 or IFRS 12. There are also special disclosure requirements for investment entities in accordance with IFRS 12. They do not affect the LEG Group.

In December 2013 the IASB published the amendment to IAS 36, Recoverable amount disclosures for non-financial assets. This contains amendments on disclosures relating to impairment and reversals. In addition, IFRS 13, Fair Value Measurement, corrected disclosure requirements included in IAS 36. The amendment to IAS 36 is effective in the EU for reporting periods beginning on or after 1 January 2014. It does not affect the LEG Group.

Furthermore, in December 2013, the IASB published amendments to IAS 39, Financial Instruments: Recognition and Measurement. The amendment to IAS 39 regulates the novation of an OTC derivative as a hedging instrument, continuing the hedge. The amendment is effective in the EU for reporting periods beginning on or after 1 January 2014. It does not affect the LEG Group.

c. Basis of consolidation and consolidation methods

1. Consolidation methods

a) Subsidiaries

The consolidated financial statements of the LEG Group contain all the material subsidiaries the LEG Immo controls within the meaning of IFRS 10. An entity is to be included in consolidation by another entity when, in substance, the former is controlled by the latter, even if it does not hold more than 50% of the voting rights in the other entity.

LEG Immo only controls its subsidiaries if all three of the following requirements of IFRS 10.7 are met:

1) the investor has power over the relevant activities of the investee
2) variable returns from the subsidiaries go to the parent company and
3) the parent company has the ability to use its power to affect the amount of the investor's returns.

First-time adoption of IFRS 10 as at 1 January 2014 did not result in any changes in the basis of consolidation and of the consolidation methods of the LEG Group.

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 purchase method, whereby the cost at the time of acquisition is offset against the pro rata share of equity. Under the purchase method, the net assets of the acquired subsidiary at the acquisition date is calculated taking into account the fair values of the identifiable assets, liabilities and contingent liabilities, deferred taxes and any goodwill at this date.

Non-controlling interests represent the portion of earnings 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. In the consolidated statement of financial position, non-controlling interests are reported in equity as a separate item 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.

b) Associates

Associates are equity interests whose financial and operating policies can be significantly influenced by the LEG Group. Significant influence is presumed when LEG Immo holds between 20% and 50% of the voting rights in this company, either directly or indirectly, unless it can be clearly demonstrated that this is not the case.

Associates are accounted for using the equity method. Under the equity method, investments in associates are recognised at cost and the carrying amount is adjusted for changes in the LEG Group's interest in the net assets of the associate and any impairment losses.

Losses from associates in excess of the carrying amount of the investment, or other non-current receivables from the financing of the respective associate, are not recognised unless there is an obligation to make additional payments.

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 the LEG Group's shareholdings can be found in section J.

2. *Changes in the Group*

a) Subsidiaries

The basis of consolidation of the LEG Group developed as follows:

T41 – Number of consolidated subsidiaries

	2014	*2013*
AS OF 01.01.	**43**	**41**
Additions	8	7
Disposals	–3	–5
AS OF 31.12.	**48**	**43**

Grundstücksgesellschaft DuHa mbH, Dusseldorf, was acquired and included in consolidation for the first time as at 1 July 2014 in the context of a portfolio acquisition. Further details can be found in section E.1.

Seven companies were included in consolidation for the first time as at 1 November 2014 in the context of business acquisitions. Details can be found in section C.3.

The disposals relate to former subsidiaries of the LEG Group merging within the LEG Group. Effective 1 January 2014, Hiltrup Grundbesitzverwertungsgesellschaft mbH & Co. KG and LEG Objekt Krefeld-Bockum GmbH & Co. KG were merged with LEG Beteiligungsverwaltungsgesellschaft mbH. GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH & Co. Immobilien KG was merged with its general partner as at 31 March 2014. These changes in the basis of consolidation have no effect on the net assets, financial position and results of operations of the Group.

b) Associates

The following table shows the development of associates accounted for using the equity method:

T42 – Number of associates accounted for using the equity method

	2014	*2013*
AS OF 01.01.	**4**	**4**
Additions / Disposals	0	0
AS OF 31.12.	**4**	**4**

3. *Business combination*

On 9 October 2014 LEG Immo signed a purchase agreement with Deutsche Annington to acquire 94.9% of shares in former Vitus companies, consisting of a property portfolio of around 9,600 residential units. The portfolio is distributed over various locations in NRW, while its most important local markets are Mönchengladbach, Wuppertal and Leverkusen. The current in-place rent is around EUR 35 million per year, rent per square metre EUR 4.76 and the vacancy rate is 3.9%. 55 employees (FTES) were taken on in the context of the transaction. Following antitrust approval, the transaction was closed on 23 October 2014.

As at 1 November 2014 LEG treated the acquisitions as a business combination as defined by IFRS 3 as significant business processes had been acquired.

The consideration for the business combination breaks down as follows:

T43 – Preliminary consideration

€ million	
Net purchase price	462.9
Contingent reimbursement of the purchase price	–0.9
TOTAL CONSIDERATION	**462.0**

The purchase price was calculated on the basis of the balance sheets as at 30 September 2014. The transaction costs of the business combination amount to EUR 3.7 million and essentially include legal and consulting costs.

The allocation of the total purchase price to the acquired assets and liabilities is based on an external appraisal. The provisional purchase price can be allocated to the assets and liabilities acquired, measured at fair value, as follows:

T44 – Preliminary purchase price allocation

€ million	*01.11.2014*
Investment properties	436.3
Cash and cash equivalents	6.9
Other assets	8.9
Assets held for sale	24.5
TOTAL ASSETS	**476.6**
Other financing liabilities	–18.8
Pension provisions	–15.5
Deferred tax liabilities	–36.1
Other liabilities	–6.1
TOTAL LIABILITIES	**–76.5**
Net assets at fair value	400.1
Non-controlling interests	–0.3
Net assets at fair value without non-controlling interests	400.4
CONSIDERATION	**462.0**
GOODWILL	**61.6**

The tax due diligence identified a possible total VAT risk of EUR 4.4 million with a probability of occurrence estimated at 20%. Any tax liability arising would be fully reimbursable in line with the provisions of the purchase agreement. In the context of purchase price allocation, a contingent liability to and a reimbursement receivable from the seller, both of EUR 0.9 million, were therefore recognised.

In addition to the total consideration, the purchase price allocation is essentially provisional regarding the following items:

— Investment property
— Deferred taxes
— Operating costs

In purchase price allocation deferred tax assets on temporary differences and tax loss carryforwards were only recognised to the extent that LEG expects to be able to use them.

Non-controlling interests in Gladbau GmbH amount to 5.1% and in GEWG GmbH to 5.1%, and are measured at the proportionate share of the recognised net assets acquired.

Synergies in the form of cost savings in the management of the portfolio are anticipated from the goodwill. The goodwill is assigned to the "Vitus" CGU and the "Residential like-for-like" CGU. Please see D.3 regarding the development of goodwill and its allocation.

Since 1 November 2014 the Vitus companies acquired generated income from property management of EUR 9.2 million and EBITDA of EUR 3.7 million.

Had the Vitus companies already been included in consolidation as at 1 January 2014, they would have contributed additional income from property management of EUR 46.2 million and additional EBITDA of EUR 24.0 million.

4. 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 2014 (IFRS 12.10 et seq.) can be found in section J.

LEG Immo holds 82.9% in LEG NRW GmbH directly and 17.07% indirectly through Rote Rose GmbH & Co. KG (Rote Rose). LEG NRW GmbH holds the other investments in the subsidiaries listed above.

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 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.

As at 31 December 2014 Biomasse Heizkraftwerk GmbH & Co.KG, Other segment, is the only subsidiary with significant non-controlling interests.

T45 – Statement of financial position – Biomasse Heizkraftwerk GmbH & Co. KG

€ million	**2014**	*2013*
Non-current		
Assets	17.5	19.8
Liabilities	–14.7	–16.7
Non-current net assets	2.8	3.1
Current		
Assets	1.7	1.5
Liabilities	–6.6	–4.9
Current net assets	–4.9	–3.4

T46 – Statement of profit or loss – Biomasse Heizkraftwerk GmbH & Co. KG

€ million	**2014**	*2013*
Revenue	7.7	8.6
Earnings before income taxes	–1.8	–0.4
Income taxes	0.0	0.0
Net profit from continued operations	–1.8	–0.4
Net profit	–1.8	–0.4
Total comprehensive income	**–1.8**	**–0.4**
Attributable to: interests without significant influence	–0.9	–0.2
Paid dividend to owner without significant interest	0.0	0.0

T47 – Statement of cash flows – Biomasse Heizkraftwerk GmbH & Co. KG

€ million	**2014**	*2013*
Net cash from / used in		
Operating activities	1.7	2.2
Investing activities	–	–
Financing activities	–1.4	–2.1
CHANGE IN CASH AND CASH EQUIVALENTS	**0.3**	**0.1**

c) Disclosures on associates

1. *Disclosures on significant associates*

The investments in associates affect the statement of financial position and the income statement of the LEG Group as follows:

T48 – Interests in associates

€ million	**2014**	*2013*
Recognition	8.9	9.2
Total comprehensive income	0.3	0.3

The disclosures on the equity investments in associates classified as material are listed below. Table *T49*

The companies listed below 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.

T49 – Material associates

	Share of capital in %	*Equity € thousand*	*Result € thousand*
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	18.8	0.6
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3.5	0.1

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.

T50 – Statement of financial position

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*
Non-current assets	43.0	41.9	7.9	8.4	**50.9**	**50.3**
Current assets	1.9	2.2	0.5	0.3	**2.4**	**2.5**
Cash and cash equivalents	2.2	1.9	0.9	0.7	**3.1**	**2.6**
Other assets	–	–	–	–	**–**	**–**
Non-current liabilities	–	–	–	–	**–**	**–**
Current liabilities	28.2	27.7	5.8	6.0	**34.0**	**33.7**
Financing liabilities	–	–	–	–	**–**	**–**
Non-financing liabilities	–	–	–	–	**–**	**–**
Net assets	**18.9**	**18.3**	**3.5**	**3.4**	**22.4**	**21.7**

T51 – Statement of profit or loss

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*
Revenue	6.1	5.9	1.2	1.2	**7.3**	**7.1**
Depreciation	1.1	1.1	0.3	0.3	**1.4**	**1.4**
Interest income	–	–	–	–	**–**	**–**
Interest expense	0.6	0.7	0.1	0.1	**0.7**	**0.8**
Income taxes	–	–	–	–	**–**	**–**
Net profit from continued operations	0.6	0.8	0.1	0.1	**0.7**	**0.9**
Net profit from discontinued operations	–	–	–	–	**–**	**–**
Other comprehensive income	–	–	–	–	**–**	**–**
Total comprehensive income	**0.6**	**0.8**	**0.1**	**0.1**	**0.7**	**0.9**

Statement of reconciliation from compiled financial information to carrying amount of the equity investments:

T52 – Reconciliation

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*	*31.12.2014*	*31.12.2013*
Net assets of associates as of 01.01.	18.3	17.7	3.4	3.3	21.7	21.0
Net profit / loss	0.6	0.8	0.1	0.1	0.7	0.9
Dividend	–	0.2	–	–	–	0.2
Net assets of associates as of 31.12.	18.9	18.3	3.5	3.4	22.4	21.7
Group share in %	40.62	40.62	33.37	33.37	–	–
Interest in net assets of associates	7.7	7.4	1.2	1.1	8.9	8.5
Carrying amount of the investment	**7.7**	**7.4**	**1.2**	**1.1**	**8.9**	**8.5**

d) Disclosures on insignificant associates

The following table shows the associates classified as insignificant.

T53 – Non-material associates

	Share of capital in %	*Equity € thousand*	*Result € thousand*
Mönchengladbach Nordpark Area of Sports GmbH, Moenchengladbach	50.00	0.0	0.0
Grundstücksgesellschaft Sendenhorst mbH, Sendenhorst	49.00	–0.4	0.1
Projektgesellschaft Hauptbahnhof Remscheid mbH, Remscheid	50.00	0.0	0.0
Area of Sports GmbH & Co. KG, Moenchengladbach	50.00	0.1	0.0

The summary financial information of the individually insignificant associates of the Group can be found in the table below.

T54 – Summarised fiscal information

€ million	**31.12.2014**	*31.12.2013*
Group share of profit or loss from continued operations	0.3	0.3
Group share of post-tax profit or loss from discontinued operations	0.0	0.0
Group share of total comprehensive income	0.0	0.0
Total comprehensive income	0.3	0.3

The carrying amounts of the individually insignificant associates of the Group are shown below.

T55 – Carrying amounts

€ million	**31.12.2014**	*31.12.2013*
Total carrying amounts	0.1	0.7

The unrecognised losses of associates are shown in the following table.

T56 – Unrecognised losses

€ million	**31.12.2014**	*31.12.2013*
Unrecognised losses for period	0.0	0.0
Cumulative unrecognised losses	0.2	0.2

D. Accounting policies

1. Investment property

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 assets 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 its fair value (IFRS 13.27 et seq.). This implies a 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.17. Changes in the fair value of property are recognised in profit or loss for the period in which they occur.

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 scheduled 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 determined internally by LEG Immo, with the exception of the property portfolio acquired from Deutsche Annington. The fair values of the properties acquired from Deutsche Annington were calculated by a third-party expert. Please see section C.3. In addition to the fair values calculated internally by LEG Immo, the property portfolio was valued by an independent, third-party expert as at 31 December 2014. LEG 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. 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 net 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 5.09/sqm as at the end of the reporting period (2013: EUR 5.00/sqm). These properties can also contain commercial units of minor significance 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% to 2%, 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 space used for measurement amounted to 3.0% as at the measurement date (2013: 3.5%). The assumptions with regard to the future development of the vacancy rate are based on location and individual property characteristics.

Publicly 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 2081 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 11.22/sqm 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 (2013: EUR 10.94/sqm).

Administrative costs are applied at a flat rate per residential unit of EUR 284.20 p.a. (2013: EUR 278.85 p.a.) and per parking or garage space of EUR 37.06 p.a. (2013: EUR 36.37 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% (2013: 1%) of gross commercial income.

Around 1.47% (2013: 1.75%) of the units in the portfolio are classified as commercial properties. In some cases, these properties can also contain residential units, but they are characterised by their primarily commercial character. Owing to the differing rent terms and market conditions compared with 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 6.95/sqm (2013: EUR 6.54/sqm), with average maintenance costs of EUR 6.82/sqm (2013: EUR 7.50/sqm) in the detailed planning period. The vacancy rate in terms of usable space was 12.8% as at the measurement date (2013: 10.2%). Administrative costs are calculated at 1% (2013: 1%) of gross commercial income.

Cash flows are discounted using standard market discount rates with matching maturities of 5.93% on average (weighted average; 2013: 5.96%) and standard market capitalisation rates for perpetuals of 6.50% (weighted average; 2013: 6.61%); 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. The change between 2013 and 2014 essentially results from the consideration of the positive general trend on the property market, the improvement in operating activities, the impact of these developments on the discount rates applied and appropriate anticipation of the real estate transfer tax increase in NRW as at 1 January 2015.

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.17.

In measurement, investment property is broken down into categories defined by type of use:

- residential property
- commercial property
- garages, underground garages or parking spaces/other properties
- leasehold and undeveloped land

Commercial property is defined as property upwards of 1,000 sqm of useable space or in which 50% of the building's space 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 developed by CBRE: orange (growth markets), green (stable markets) and purple (higher yielding markets).

The table below shows the measurement method used to determine the fair value of investment property and the material unobservable inputs used. Table *T57*

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2013: Table *T58*

T57 – Information about fair value measurements using significant unobservable inputs (Level 3)

			Discount rate *(sqm-weighted)*[4]			**Capitalisation rate for terminal value** *(sqm-weighted)*[4]		
Segment € million	**GAV assets**	**Valuation technique**[3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets[1]								
High-growth markets	2,337	DCF	4.5	5.8	7.8	3.0	6.0	8.5
Stable markets with attractive yields	2,067	DCF	4.6	5.9	9.0	3.6	6.3	12.7
Higher-yielding markets	1,157	DCF	4.7	6.1	6.8	4.4	7.2	12.9
Non NRW	114	DCF	4.6	5.8	6.4	4.3	6.5	8.9
Commercial assets[2]	172	DCF	4.8	6.8	10.7	5.0	7.2	12.2
Parking + other assets	99	DCF	5.5	–	7.5	3.8	–	13.3
Leasehold + land values	27	Earnings/reference value method						
TOTAL IAS 40/IFRS 5	**5,973**	**DCF**	**4.5**	**5.9**	**10.7**	**3.0**	**6.5**	**13.3**

[1] Excluding 309 residential units in commercial buildings; including 295 commercial and other units in mixed residential assets.
[2] Excluding 295 commercial units in mixed residential assets; including 309 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
For 9,574 acquisition residential units information included from the fair value measurement by CBRE as of 30 September 2014.
[4] sqm-weighted interest rates refer to residential and commercial assets.
bp = basis points

T58 – Information about fair value measurements using significant unobservable inputs (Level 3)

			Discount rate *(sqm-weighted)*[4]			**Capitalisation rate for terminal value** *(sqm-weighted)*[4]		
Segment € million	**GAV assets**	**Valuation technique**[3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets[1]								
High-growth markets	2,205	DCF	4.6	5.8	7.9	3.1	6.0	9.1
Stable markets with attractive yields	1,545	DCF	4.7	5.9	7.4	3.6	6.6	13.0
Higher-yielding markets	1,030	DCF	4.8	6.1	7.7	4.5	7.3	13.0
Non NRW	85	DCF	4.7	5.8	6.5	4.6	7.2	9.0
Commercial assets[2]	186	DCF	4.8	6.9	13.0	5.0	7.4	14.0
Parking + other assets	107	DCF	5.6	0.0	7.6	4.0	0.0	14.3
Leasehold + land values	22	Earnings/reference value method	–	–	–	–	–	–
TOTAL IAS 40/IFRS 5	**5,180**	**DCF**	**4.6**	**6.0**	**13.0**	**3.1**	**6.6**	**14.3**

[1] Excluding 286 residential units in commercial buildings; including 265 commercial and other units in mixed residential assets.
[2] Excluding 265 commercial units in mixed residential assets; including 286 residential units in commercial buildings.
[3] In exceptional cases liquidation value approach.
[4] sqm-weighted interest rates refer to residential and commercial assets.
bp = basis points

	Sensitivities GAV *(variance discount rate)*		**Sensitivities GAV** *(variance cap rate)*		**Estimated rental development Residential** *(sqm-weighted)*			**Estimated vacancy development Residential** *(sqm-weighted)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*durchschn.*	*max.*	T_0
	4.5	−4.1	2.6	−2.2	0.9	1.4	1.7	1.1
	3.7	−3.4	2.4	−2.1	0.5	0.9	1.4	3.3
	3.7	−3.5	1.8	−1.7	0.3	0.7	1.1	4.7
	3.7	−2.8	2.6	−1.7	0.5	1.2	1.5	2.7
	2.1	−2.0	1.9	−1.7	–	–	–	–
	4.5	−4.1	1.8	−1.6	–	–	–	–
					–	–	–	–
	4.0	**−3.6**	**2.3**	**−2.1**	**–**	**–**	**–**	**–**

	Sensitivities GAV *(variance discount rate)*		**Sensitivities GAV** *(variance cap rate)*		**Estimated rental development Residential** *(sqm-weighted)*			**Estimated vacancy development Residential** *(sqm-weighted)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*durchschn.*	*max.*	T_0
	4.5	−4.1	2.5	−2.3	0.9	1.4	1.8	1.5
	4.1	−3.8	2.2	−2.0	0.5	0.9	1.5	3.9
	3.7	−3.5	1.8	−1.7	0.3	0.7	1.2	5.2
	3.7	−3.5	1.9	−1.8	0.5	1.2	1.5	1.2
	2.0	−1.9	1.9	−1.8	–	–	–	–
	4.5	−4.2	2.0	−1.9	–	–	–	–
	–	–	–	–	–	–	–	–
	4.1	**−3.8**	**2.2**	**−2.0**	**–**	**–**	**–**	**–**

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 have a right of first refusal at preferential conditions in certain cases. 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 improvement measures. Certain parts of the portfolio are also subject to unconditional restrictions on sale.

2. *Property, plant and equipment*

Property, plant and equipment is recognised at cost and depreciated on a straight-line basis over its expected economic life. Subsequent expenditure is capitalised if this serves to increase the value in use of the respective item. The useful lives and residual values are examined annually and adjusted as necessary.

Any subsidies received are deducted in calculating cost.

Depreciation is recognised using the following useful lives, which are applied uniformly throughout the Group:

T59 – Useful life of property, plant and equipment

in years	**2014**	*2013*
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/ Other operating and office equipment	5 – 23	5 – 23

The carrying amounts of property, plant and equipment are tested for impairment when there are indications that the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment is derecognised when sold or when no further economic benefit is expected from the continued use or the disposal of the asset. The gains or losses resulting from derecognition of the asset are recognised directly in profit or loss in the consolidated statement of comprehensive income.

In accordance with the tax regulation on the depreciation of low-value assets that has been in place since January 2010, low-value assets with a net value of up to EUR 150 are written off in full in the year of their acquisition. Assets with a net value of between EUR 150.01 and EUR 1,000 are assigned to an omnibus item and depreciated on a straight-line basis over a period of five years. Deviations from the economic life of the respective assets are considered immaterial.

3. *Intangible assets and goodwill*

Acquired intangible assets are recognised 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 following principles are applied to the recognition of internally generated intangible assets:

Development costs that are directly allocated to the development and testing of identifiable individual software products controlled by the Group are recognised as intangible assets if the recognition criteria set out in IAS 38 are met.

Development costs not meeting these criteria are expensed in the period in which they are incurred. Development costs that have already been expensed are not capitalised in a subsequent period.

Goodwill arises from the acquisition of a business and represents the excess of consideration transferred over the fair values of the net assets less non-controlling interests as at the acquisition date. It is not amortised, rather it is tested annually for impairment. Impairment losses on goodwill cannot be reversed.

Basic information on and the premises of the impairment method used in the LEG Group in accordance with IAS 36 (Impairment of Assets) can be found in the section "Accounting policies" under "Impairment of assets".

The goodwill resulting from purchase price allocation (PPA) is allocated to the cash-generating units (CGU's) expected to benefit from the business combination. In the LEG Group, the Residential like-for-like and Vitus CGUs will benefit from the acquisition of the Vitus portfolio. The allocation of goodwill firstly takes into account the economic substance of the assets and liabilities assumed. Secondly, it also considers the ratio of synergies that the two CGUs are expected to generate from the business combination.

First-time consolidation resulted in net deferred tax liabilities that increase goodwill of EUR 34.6 million. This portion of goodwill results from assets and liabilities of the Vitus CGU; EUR 34.6 million of the goodwill is therefore allocated to this CGU.

The synergies anticipated from the business combination essentially consist of planned cost savings, additional income potential and tax savings, which will be implemented almost exclusively in the Residential like-for-like CGU. The remaining portion of goodwill of EUR 27.0 million is therefore allocated to this CGU.

In the goodwill impairment test, the recoverable amount is represented by the fair value less costs to sell (FVLCTS). The FVLCTS 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. Here, a general tax rate of 31.2% is applied to EBIT (previous year: 31.2%). 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).

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.

A uniform capitalisation rate of 3.1% (previous year: 3.9%) was used for the CGUs analysed in the goodwill impairment test, representing a corresponding pre-tax capitalisation rate of 3.5% (previous year: 4.7%), taking into account a typical tax rate on EBIT of 31.2%.

The changes in the capitalisation rates as against the previous year result from current forecasts for the medium and long-term development of the capital market.

A sustainable growth rate of 1.0% p.a. is assumed for both CGU's.

The goodwill impairment tests performed for the two CGU's in question (Residential like-for-like and Vitus) did not give rise to any impairment requirements.

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 did not give rise to any impairment requirements for the two CGUs.

Weighted costs of capital

The risks from assumptions regarding the capitalisation rate used as standard to calculate the present value of FVLCTS were tested by simulating a change in the costs of capital of +/–50 bp. This scenario analysis also did not give rise to any impairment requirements for the two CGU's.

4. Impairment of assets

Each year the LEG Group tests intangible assets and property, plant and equipment in accordance with IAS 36 for impairment losses. In doing so it determines whether there are indications of possible impairment. If there are such indications, the recoverable amount of the asset in question is calculated. This is the higher of its fair value less costs to sell and its value in use. A standard pre-tax interest rate is applied for discounting. Furthermore, in accordance with IAS 36, goodwill and intangible assets with an indefinite useful life are tested for impairment at least once per year.

Impairment testing is generally performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGU's) are formed as groups of assets whose future cash flows are interdependent. In the LEG Group CGU's are mostly analysed at the operating segment level. Given the consistency between the management structure and the legal structure, the identified CGUs also always consist of at least one legal entity. Thus, the data needed for the asset impairment test can be derived from annual financial statement and planning data.

The carrying amount of a CGU is determined by adding together the carrying amounts of the assets less those of the liabilities associated with the assets included (net position). Furthermore, the necessary working capital for the CGU has to be included. There were no assets and liabilities used jointly by several CGU's (corporate assets and liabilities) that would have been assigned to the CGU's pro rata in the past financial year.

In the financial year, in addition to the CGUs affected by the goodwill impairment test, an impairment text was required for the Biomasse CGU, which consists of the legal entity Biomasse Heizkraftwerk GmbH & Co. KG.

The recoverable amount for the Biomasse CGU was calculated on the basis of its FVLCTS. A capitalisation rate of 3.3% p.a. (previous year: 4.0% p.a.) was applied, reflecting an assumed tax rate of 31.2% and a pre-tax capitalisation rate of 3.6% (previous year: 4.7%). As the FVLCTS covered the carrying amount of the CGU, no additional calculation of the value in use was required.

There is detailed planning for the Biomasse CGU until the end of its useful life. A sustainable growth rate was therefore not taken into account.

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 did not give rise to any impairment requirements for the Biomasse CGU.

Weighted costs of capital

The risks from assumptions regarding the capitalisation rate used as standard to calculate the present value of FVLCTS were tested by simulating impairment on each CGU with a change in the costs of capital of +/–50 bp. This scenario analysis also did not give rise to any impairment requirements for the Biomasse CGU.

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.

In accordance with IAS 39, subsidiaries that are not consolidated due to immateriality are classified as available-for-sale financial assets for measurement purposes.

Available-for-sale financial assets 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.

Available for sale financial instruments are measured at fair value on acquisition.

Gains and losses on subsequent measurement at fair value are reported directly in equity (cumulative other reserves).

On disposal of a financial asset, the cumulative net gain or loss on remeasurement previously recognised in other reserves is reversed and recognised in profit or loss in the statement of comprehensive income.

In the event of any impairment, the impairment loss in other reserves is corrected in profit or loss. If impairment is reversed, the respective amount is recognised in profit or loss for debt instruments and recognised directly in equity for equity instruments. Impairment cannot be reversed on AfS instruments at cost; any impairment is recognised in profit or loss.

6. Accounting for leases as the lesseer

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. The depreciation period is the shorter of the lease term and the useful life of the asset. In cases where ownership of the asset is transferred to the LEG Group at the end of the lease term, the depreciation period is the economic life of the asset. A corresponding liability is recognised in the amount of the present value of the future minimum lease payments. This liability is reduced in subsequent periods by the financial charge included in instalments.

Leases for which beneficial ownership does not lie with the LEG Group are classified as operating leases. The expenses resulting from these leases are recognised in profit or loss.

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. Real estate inventory and other inventories

Other inventories are carried at cost, which is calculated on the basis of the allocable direct costs for service provision plus production-related overheads. Inventories are carried at the lower of cost and net realisable value as at the end of the reporting period. Details on the accounting treatment of borrowing costs can be found in section D.21.

9. 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.

Potential default risks are recognised in the form of appropriate allowances based on past experience and individual risk assessments, taking into account the forecast net cash flows. For financial instruments carried at amortised cost, a distinction is made between specific allowances and general allowances.

General allowances are used to recognise impairment on financial assets when it is unlikely that all the contractually agreed payments (interest or principal) will be achieved on maturity.

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 addition to individual non-current assets, assets held for sale can include groups of assets (disposal groups) or components of entities (discontinued operations) if their disposal is considered to be highly probable within the next twelve months. Classification in accordance with IFRS 5 is retained only if the asset can be sold immediately in its present condition, at conditions subject only to terms that are usual and customary for the disposal of such assets.

Liabilities that are directly associated with the planned disposal are a component of the disposal group or the discontinued operations and are also reported separately.

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. Provisions for pensions

Pension and similar obligations result from commitments to employees. Obligations under defined benefit plans are measured using the projected unit credit method, taking into account pensions and benefits as at the end of the reporting period in addition to expected future salary and pension increases. The biometric basis is provided by the 2005G mortality tables published by Dr Klaus Heubeck.

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 equity in cumulative other reserves 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 to make payments that is likely to be settled by an outflow of resources embodying economic benefits that can be reliably determined. They are recognised at 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. Financial 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 the present value of future payment obligations based on a market interest rate with matching maturity and risk.

In subsequent periods financial liabilities are measured 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 in accordance with IAS 39. AG 62, the original liability is treated as if it had been repaid in full in accordance with IAS 39.40 and a new liability is recognised at fair value.

15. Derivative financial instruments

The LEG Group uses derivative financial instruments to hedge interest rate risks arising from real estate financing.

Derivative financial instruments are recognised at fair value. Changes in the fair value of derivatives are recognised in profit or loss unless the respective instruments are designated as hedges in accordance with IAS 39. Derivatives used as hedging instruments are used to hedge uncertain future cash flows. The LEG Group is exposed to future cash flow risks as a result of floating-rate financial liabilities in particular.

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 cumulative other reserves in equity.

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 (OCI) 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 at 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 at 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 input data). Please see section D.17.

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. Calculation of fair value

All assets, equity instruments and liabilities measured at fair value in line with the requirements of other standards (except IAS 17 Leases and IFRS 2 Share-based Payment) are measured uniformly in line with IFRS 13. 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). This also applies if the enterprise has neither the intention nor the capacity to sell the asset at the measurement date or to transfer the liability at this point in time. In calculating the fair value of non-financial assets, the concept of highest and best use is applied (IFRS 13.27 et seq.). This implies a use or value maximisation of the asset as far as it is physically possible, legally permissible and financially feasible.

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 1. For the measurement of derivative financial instruments, please see section D.15 and section I.3.

The fair value hierarchy can be summarised as follows:

T60 – Fair value hierarchy

	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	

18. Recognition of income and expenses

Income is recognised when it is probable that the economic benefit will flow to the LEG Group and the amount of the income can be reliably determined. The following recognition criteria must also be met in order for income to be recognised:

a) Rental and lease income

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 to tenants are provided, the cost of 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 costs and the amount of the income can be reliably determined and the services have been provided.

b) Income from the disposal of property

Income from the disposal of property is recognised when the LEG Group transfers substantially all the risks and rewards incident to ownership to the buyer. A transfer is generally 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 return guarantees, grants a right of return to the buyer or enters into other material obligations with respect to the buyer that prevent the transfer of risks and rewards of ownership to the buyer.

c) Income from services and third-party management

Income from the performance of service projects is recognised in the period in which the service is provided. This is determined in accordance with the percentage of completion of the respective project and the ratio of the services rendered as at the end of the reporting period to the total services to be provided.

Income from third-party management is only recognised once the corresponding services have been rendered.

d) Interest and similar income

Interest income is recognised using the effective interest method in the period in which it arises.

e) Dividend income

Dividend income is recognised when the right to receive the respective payment arises.

f) Expenses

Operating expenses are recognised in profit or loss when the respective service is utilised or the expenses are caused.

19. Government grants

Government grants within the meaning of IAS 20 are recognised if there is reasonable assurance that the grants will be received and that the company will comply with the corresponding conditions. Expense-related grants are recognised as income over the period that is expected to be necessary to offset the expenses for which the grants compensate.

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 and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

20. Income taxes

Income tax expense represents the sum of current tax expense and deferred taxes.

LEG 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 LEG 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.

Current tax expense is calculated on the basis of the taxable income for the respective 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. 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 assured to a reasonable extent.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met.

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.

The tax liability from the settlement of corporation tax from previously unutilised "EK 02" taxable equity is discounted using the applicable tax discount rate of 5.5%.

21. Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. For inventories in accordance with IAS 2 borrowing costs are capitalised if there are qualifying assets. The same applies to property, plant and equipment and intangible assets.

22. Judgments

The management is required to use judgment 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.

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 FVLCTS requires assumptions and judgements regarding future EBIT development and sustainable growth rates in particular.

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.

In addition, former shareholders of the LEG Group have concluded an agreement with the Management Board on the granting of shares in LEG depending on a successful IPO or exit. In line with IFRS, these share option plans are classified and recognised as equity-settled share-based remuneration. The fair value of the shares is calculated using recognised financial models as at the grant date and distributed on a straight-line basis over the vesting period in which the enterprise receives the counterperformance in the form of employee service. The expenses are recognised in staff costs and recognised directly in equity.

Details of share-based payment can be found in section I.6.

E. Notes to the consolidated statement of financial position

1. Investment property

Investment property developed as follows in the 2014 and 2013 financial years:

T61 – Investment properties

€ million	**2014**	*2013*
CARRYING AMOUNT AS OF 01.01.	**5,163.4**	**4,937.1**
Acquisitions	615.9	128.5
Other additions	43.4	43.7
Reclassified to assets held for sale	–52.6	–28.4
Reclassified to property, plant and equipment	–1.3	–0.3
Reclassified from property, plant and equipment	2.5	1.2
Fair value adjustment	143.0	81.6
CARRYING AMOUNT AS OF 31.12.	**5,914.3**	**5,163.4**

The following acquisitions were performed in the reporting period.

The additions include the capitalisation of a property portfolio of around 735 residential units by way of purchase agreement dated 7 November 2013. The annual net cold rent is EUR 2.1 million. The average in-place rent is EUR 4.64/sqm; the vacancy rate is 5.2%. The purchase price including incidental costs of acquisition is around EUR 26.2 million. The transaction was closed on 1 February 2014.

A property portfolio of around 537 residential units was acquired by way of a purchase agreement dated 16 December 2013. The annual net cold rent is EUR 2.2 million. The average in-place rent is EUR 5.20/sqm; the vacancy rate is 0.4%. The purchase price including incidental costs of acquisition is EUR 26.0 million. The transaction was closed on 1 June 2014.

The acquisition of a property portfolio of around 300 residential units was notarised on 16 April 2014. The portfolio generates annual net cold rent of EUR 1.4 million. The average in-place rent is EUR 5.43/sqm; the initial vacancy rate is 3.2%. The purchase price including incidental costs of acquisition is around EUR 20.4 million. The transaction was closed on 1 June 2014.

The transfer of a portfolio of 1,922 residential units in NRW and the company behind them was closed as at 1 July 2014. The purchase price including incidental acquisition costs is around EUR 101.0 million. The portfolio currently generates annual net cold rent of EUR 7.9 million. When the agreement was signed, the average rent on the portfolio was EUR 4.96/sqm with a vacancy rate of 3.0%.

A property portfolio of around 2,400 residential units was acquired by way of a purchase agreement dated 17 September 2014. The purchase price is around EUR 111.4 million. The transaction is expected to be closed in the first half of 2015.

T62 – Composition of investment properties

	31.12.2014		*31.12.2013*	
€ million	*Investment properties*	*Properties held for sale*	*Investment properties*	*Properties held for sale*
Developed land	5,792.1	57.5	5,036.2	16.4
Undeveloped land	20.1	0.8	17.4	–
Other	102.1	0.1	109.8	–
TOTAL	**5,914.3**	**58.4**	**5,163.4**	**16.4**

The acquisition of each of the above property portfolio is treated as a group of assets in the consolidated financial statements. A business within the meaning of IFRS 3.3 was not acquired as there was no transfer of material business processes.

The acquisition of the property portfolio of around 9,600 residential units from Deutsche Annington is treated as a business combination as defined by IFRS 3. Please see section C.3.

Other additions in the financial year primarily relate to investments in existing properties. The largest investments in 2014 included those in Dortmund, Monheim and Gelsenkirchen.

The reclassification to assets held for sale essentially relates to the sale of three commercial properties, seven block sales and other individual sales. Please also see section E.9. The units were sold to independent market participants in the course of the ordinary sales process.

Investment property broke down as follows in the 2014 and 2013 financial years: Table *T62*

The development in fair values in the financial year, as in the previous year, was essentially determined by the declining discount rate and a solid development in operating business in the form of in-place rent increases and the reduction of vacancies as a result of the positive development of the market environment .

Moreover, the real estate transfer tax increase in NRW as at 1 January 2015 has been appropriately anticipated.

Sensitivities were as follows as at 31 December 2014:

T63 – Sensitivity analysis 2014

€ million			**Sensitivities GAV** *(variance discount rate)*		**Sensitivities GAV** *(variance cap rate)*	
Segment	*GAV assets*	*Valuation technique[3]*	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	2.337	Discounted cash flows	4.5	–4.1	2.6	–2.2
Stable markets with attractive yields	2.067	Discounted cash flows	3.7	–3.4	2.4	–2.1
Higher-yielding markets	1.157	Discounted cash flows	3.7	–3.5	1.8	–1.7
Non NRW	114	Discounted cash flows	3.7	–2.8	2.6	–1.7
Commercial assets[2]	172	Discounted cash flows	2.1	–2.0	1.9	–1.7
Parking + other assets	99	Discounted cash flows	4.5	–4.1	1.8	–1.6
Leasehold + land values	27	Earnings/reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5	**5.973**	**Discounted cash flows**	**4.0**	**–3.6**	**2.3**	**–2.1**

[1] Excluding 309 residential units in commercial buildings; including 295 commercial and other units in mixed residential assets.
[2] Excluding 295 commercial units in mixed residential assets; including 309 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
For 9,574 acquisition residential units information included from the fair value measurement by CBRE as of 30 September 2014.
bp = basis points

T64 – Sensitivity analysis 2013

€ million			**Sensitivities GAV** *(variance discount rate)*		**Sensitivities GAV** *(variance cap rate)*	
Segment	*GAV assets*	*Valuation technique[3]*	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	2.205	Discounted cash flows	4.5	–4.1	2.5	–2.3
Stable markets with attractive yields	1.545	Discounted cash flows	4.1	–3.8	2.2	–2.0
Higher-yielding markets	1.030	Discounted cash flows	3.7	–3.5	1.8	–1.7
Non NRW	85	Discounted cash flows	3.7	–3.5	1.9	–1.8
Commercial assets[2]	186	Discounted cash flows	2.0	–1.9	1.9	–1.8
Parking + other assets	107	Discounted cash flows	4.5	–4.2	2.0	–1.9
Leasehold + land values	22	Earnings/reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5	**5.180**	**Discounted cash flows**	**4.1**	**–3.8**	**2.2**	**–2.0**

[1] Excluding 286 residential units in commercial buildings; including 265 commercial and other units in mixed residential assets.
[2] Excluding 265 commercial units in mixed residential assets; including 286 residential units in commercial buildings.
[3] In exceptional cases liquidation value approach.
bp = basis points

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.

The rental agreements for residential property concluded by the LEG Group can be terminated by the tenant at any time 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 that were in place as at 31 December 2014: Table *T65*

Land with third-party heritable building rights under finance leases had a net carrying amount of EUR 3.4 million as at the end of the reporting period (2013: EUR 0.3 million). The rise in this item as against the previous year is due to additions in the context of portfolio acquisitions.

Investment property is used almost exclusively as securities for financial liabilities. See also E.13.

2. Property, plant and equipment

This item is used to report land and buildings classified in accordance with IAS 16, technical equipment and operating and office 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:

T66 – Assets under finance leases

€ million	**31.12.2014**	*31.12.2013*
Heat-generating plants	12.5	14.1
Measuring instruments	7.8	6.1
Heritable building rights	3.4	0.2
Power lines	0.9	1.1
Hardware	0.1	0.1
TOTAL	**24.7**	**21.6**

The decline in the carrying amount of heating facilities mainly resulted from depreciation in the financial year.

EUR 1.0 million of the rise in the carrying amount of measuring equipment results from the contracts assumed for measuring services as part of the acquisition of the Vitus portfolio from Deutsche Annington.

Unlike in the previous year, finance lease leaseholds are reported separately. The increase in this item as against the previous year results from the acquisition of property portfolios over the course of the 2014 financial year.

The reduction in other carrying amounts essentially results from depreciation in the financial year.

T65 – Amount based on minimum lease instalments for long-term rental agreements (commercial properties)

€ million	*Remaining term up to 1 year*	*Remaining term >1 to 5 years*	*Remaining term >5 years*	**Total**
31.12.2014	14.0	29.1	24.2	67.3
31.12.2013	15.9	36.5	31.3	83.7

3. Intangible assets

The development of intangible assets is shown in the consolidated statement of changes in assets (Annex 1).

4. Investments in associates

The following table provides a summary of the financial information for associates accounted for using the equity method:

T67 – Companies accounted for using the equity method

€ million	**31.12.2014**	*31.12.2013*
Investments in associates	8.9	9.2
Net income from associates	0.3	0.3

T68 – Companies accounted for using the equity method

€ million	**31.12.2014**	*31.12.2013*
Assets[1]	56.6	57.6
Liabilities[1]	34.1	34.6
Group share of net assets	8.9	9.2
	2014	*2013*
Revenue[1]	7.3	8.1
Gain/Loss[1]	0.7	0.7
Group share of net profit	0.3	0.3

[1] Equivalent to 100 % share.

Losses at associates are recognised up to a carrying amount of zero. Any losses in excess of this amount are carried forward in an auxiliary account if there is no obligation to make additional payments.

Unrecognised pro rata losses developed as follows:

T69 – Unrecognised pro rata losses

€ million	**2014**	*2013*
For period	0.0	0.0
Cumulative	0.2	0.2

The carrying amounts developed as follows in the financial year:

T70 – Carrying amount reconciliation

€ million	**2014**	*2013*
01.01.	**9.2**	**8.3**
Share of profit	0.3	0.3
Transfer	0.0	0.6
Disposals	–0.6	0.0
31.12.	**8.9**	**9.2**

5. Other financial assets

Other financial assets are composed as follows:

T71 – Other financial assets

€ million	**31.12.2014**	*31.12.2013*
Investments in affiliates not included in consolidation	0.1	0.1
Investments in equity investments and associates	1.2	1.5
Other financial assets	1.1	2.0
TOTAL	**2.4**	**3.6**

Details of other financial assets can be found in section 1.3.

6. Receivables and other assets

Receivables and other assets are composed as follows:

T72 – Receivables and other assets

€ million	**31.12.2014**	*31.12.2013*
Trade receivables, gross	25.1	19.1
Impairment losses	–10.5	–7.9
TOTAL	**14.6**	**11.2**
Thereof attributable to rental and leasing	6.3	5.5
Thereof attributable to property disposals	3.5	4.2
Thereof attributable to other receivables	4.8	1.5
Thereof with a remaining term up to 1 year	12.3	8.6
Thereof with a remaining term of between 1–5 years	2.2	2.6
€ million	**31.12.2014**	*31.12.2013*
Receivables from uninvoiced operating costs	5.7	6.7
Loans	0.1	0.9
Other financial assets	4.3	2.5
Other miscellaneous assets	4.9	2.5
TOTAL	**15.0**	**12.6**
Thereof with a remaining term up to 1 year	14.8	12.4
Thereof with a remaining term of between 1–5 years	0.3	0.2
TOTAL RECEIVABLES AND OTHER ASSETS	**29.6**	**23.8**

Details of related parties can be found in section I.6.

7. Real estate inventory and other inventories

Real estate inventory and other inventories are composed as follows:

T73 – Real estate and other inventories

€ million	**31.12.2014**	*31.12.2013*
Undeveloped land	1.4	1.4
Land under development	2.8	7.8
Other work in progress	0.0	0.1
Other inventories	2.0	0.8
TOTAL	**6.2**	**10.1**

Further information on inventories can be found in the following table:

T74 – Additional information

€ million	**31.12.2014**	*31.12.2013*
Amount of inventories recognised as an expense in the reporting period	7.0	8.7
Amount of inventories with tenancy of more than 1 year	4.1	10.1

The decrease in inventories essentially results from the winding up of the Development division.

8. Cash and cash equivalents

T75 – Cash and cash equivalents

€ million	**31.12.2014**	*31.12.2013*
Bank balances	129.8	110.6
Cash on hand	0.1	0.1
CASH AND CASH EQUIVALENTS	**129.9**	**110.7**
Restricted disposal balances – notary trust accounts –	8.4	1.9

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.

9. 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.

T76 – Assets held for sale

€ million	**2014**	*2013*
BUCHWERT ZUM 01.01.	**16.4**	**2.2**
Reclassified from investment properties	52.6	28.4
Reclassified to investment properties	0.0	–0.1
Disposal due to sale of land and buildings	–37.2	–14.8
Disposal due to sale of companies	–0.2	–0.6
Addition due to acquisitions	24.5	–
Other additions	2.3	1.3
CARRYING AMOUNT AS OF 31.12.	**58.4**	**16.4**

Investment property was sold again in the reporting period for the purposes of selective portfolio streamlining.

The rise in reclassification from investment property essentially relates to the sale of three commercial properties, seven block sales and other individual sales. The largest single item in the financial year was the sale of a commercial property on 2 December 2014 in the amount of EUR 8.0 million at LEG S Essen GmbH, transferred on 1 January 2015.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped properties and residential and commercial buildings. The rise in disposals essentially related to one commercial property for which the purchase agreement was signed in December 2013 and that was transferred to the buyer in the second quarter of 2014. The purchase price and the carrying amount were both EUR 14.2 million. Disposals also related to other block and individual sales.

The additions due to the purchase of companies include land and buildings from the acquisition of the former Vitus companies from Deutsche Annington.

10. Equity

The change in equity components is shown in the statement of changes in equity.

a) Issued capital

The Annual General Meeting of 25 June 2014 revised Article 8.1 (Supervisory Board), revoked the authorised capital previously in place and created new Authorised Capital 2014. It also amended the Contingent Capital 2013 resolved by the Annual General Meeting on 17 January 2013 and revised Article 4.1 and Article 4.2 of the Articles of Association accordingly.

The Management Board has been 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 26,481,722 by issuing up to 26,481,722 new registered shares against cash or non-cash contributions by 24 June 2019. The share capital thereof is contingently increased by up to EUR 26,481,722.00 through the issue of up to 26,481,722 new no-par value registered shares (Contingent Capital 2013/2014).

On 9 October 2014, with the approval of the Supervisory Board, the Managing Board of LEG Immo resolved to partially utilise the existing authorised capital and to increase the share capital of the company, with shareholders' pre-emption rights disapplied, by nominally EUR 4,100 thousand by issuing 4,100,000 new shares. This corresponds to 7.7% of the share capital before the capital increase. This was entered in the commercial register on 10 October 2014. Following partial utilisation, Authorised Capital 2014 amounts to EUR 22,381,722.

The transaction costs of the capital increase amounted to EUR 3,075,000. The capital reserves were reduced by this amount less the tax receivable arising from the deductibility of these costs as an operating expense, i.e. by EUR 2,114,831.

The notifications in accordance with section 160(1) no. 8 AktG can be found in Annex III.

b) Capital reserves

An amount of EUR 62.0 million was withdrawn from capital reserves and added to net retained profits. The gross proceeds from the capital increase amount to EUR 205,000,000 (4,100,000 shares at EUR 50 per share). This gives rise to capital reserves of EUR 198,800,000 (EUR 4,100,000 is share capital).

c) 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 2014 financial year, there was a distribution to the shareholders of the company for 2013 in the form of a dividend of EUR 91.6 million.

d) Non-controlling interests

Non-controlling interests in other comprehensive income were composed as follows:

T77 – Non-controlling interest in other comprehensive income

€ million	**31.12.2014**	*31.12.2013*
Actuarial gains and losses from the measurement of pension obligations	−0.2	0.1
Fair value adjustment of interest rate derivatives in hedges	−0.3	0.2
NON-CONTROLLING INTEREST IN OTHER COMPREHENSIVE INCOME	**−0.5**	**0.3**

11. Provisions for pensions

Expenses for defined contribution plans amounted to EUR 3.5 million in the year under review (2013: EUR 3.7 million). These essentially comprise contributions to the statutory pension scheme.

In connection with defined benefit plans, the LEG Group uses statistical and 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:

T78 – Calculation of pension provisions

in %	**31.12.2014**	*31.12.2013*
Discounting rate	1.80	3.40
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 2014 (present value of obligation as at 31 December 2014: EUR 164.6 million):

T79 – Sensitivity of pension provisions

€ million		
Discounting rate (increase and decrease around 0.5 % pts.)	152.7	177.8
Salary trend (increase and decrease around 0.5 % pts.)	166.5	162.6
Mortality (increase and decrease around 10 %)	158.5	171.3
Pension trend (increase and decrease around 0.25 % pts.)	169.2	160.0

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 2013 (present value of obligation as at 31 December 2013: EUR 118.4 million):

T80 – Sensitivity of pension provisions

€ million		
Discounting rate (increase and decrease around 0.5 % pts.)	110.9	126.8
Salary trend (increase and decrease around 0.5 % pts.)	119.7	117.1
Mortality (increase and decrease around 10 %)	114.5	122.8
Pension trend (increase and decrease around 0.25 % pts.)	121.4	115.5

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.

T81 – Development of pension obligations

€ million	**2014**	*2013*
PRESENT VALUE OF OBLIGATIONS AS OF 01.01.	**118.4**	**127.3**
Service cost	1.5	1.7
Interest expenses	4.0	3.6
Addition due to acquisitions	15.9	–
Payments	–6.6	–6.0
Remeasurement	31.4	–8.2
Thereof losses (gains) from changes in experience	0.4	0.2
Thereof losses (gains) arising from changes in financial assumptions	31.0	–8.4
Thereof losses (gains) arising from changes in demographic assumptions	–	–
PRESENT VALUE OF OBLIGATIONS AS OF 31.12.	**164.6**	**118.4**

EUR 53.1 million of the present value of the obligation relates to current employees covered by the plan (2013: EUR 37.0 million), EUR 11.5 million to employees who have left the company and whose rights are not yet vested (2013: EUR 7.2 million) and EUR 100.0 million to pensioners (2013: EUR 74.2 million).

A pension payment of EUR 7.0 million (2013: EUR 6.1 million) is expected for 2015. The duration of the defined benefit obligation (not including acquisitions) is 14 years (2013: 14 years).

12. Other provisions

Other provisions are composed as follows:

T82 – Other provisions

€ million	**31.12.2014**	*31.12.2013*
Provisions for partial retirement	1.8	1.7
STAFF PROVISIONS	**1.8**	**1.7**
Construction book provisions	4.7	5.4
Provisions for other risks	17.9	16.4
Provisions for litigation risks	4.4	3.9
Provisions for lease properties	1.9	2.1
Provision for costs of annual financial statements	1.0	0.9
Archiving provision	0.4	0.2
OTHER PROVISIONS	**30.3**	**28.9**

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 17.6 million within one year (previous year: EUR 18.0 million) and EUR 16.2 million after one year (previous year: EUR 14.6 million).

13. Financial liabilities

Financial liabilities are composed as follows:

T83 – Financing liabilities

€ million	**31.12.2014**	*31.12.2013*
Financing liabilities from real estate financing	2,932.4	2,558.9
Financing liabilities from lease financing	27.9	24.8
FINANCING LIABILITIES	**2,960.3**	**2,583.7**

Financial liabilities from property financing serve the financing of investment property.

The rise in financial liabilities from property financing results in part from placement of the convertible bond maturing as at 1 July 2021 with a nominal value of EUR 300.0 million (carrying amount as at 31 December 2014: EUR 255.2 million). The convertible bond was classified in full as a financial liability on account of the issuer's contractual cash settlement option and recognised in accordance with IAS 39. There are several embedded and separable derivatives that are treated as a single compound derivative in accordance with IAS 39.AG29 and carried at fair value. The underlying debt instrument is recognised at amortised cost.

A total volume of EUR 16.7 million was refinanced in the 2014 financial year. Other loans extended in the amount of EUR 51.3 million resulted in increased loan liabilities. Loans of EUR 111.2 million were agreed in the context of acquisition financing and EUR 21.5 million was assumed. In addition to the loans utilised, financial liabilities were also increased by loans amortisation. This was offset by scheduled and unscheduled repayments.

Properties are used almost exclusively as security for the loans; details of the amount of the land charges entered in the land register can be found in section I.8.

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 406.7 million in the 2014 financial year (2013: EUR 383.9 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) Financial liabilities from real estate financing

The maturities shown in the consolidated financial statements are based on the contractually agreed fixed interest periods and not the final maturities of the respective financial liabilities.

The remaining terms of financial liabilities from real estate financing are composed as follows: Table *T84*

b) Financial liabilities from lease financing

Financial liabilities from lease financing are composed as follows: Table *T85*

Future minimum lease payments are derived as follows as at 31 December 2014: Table *T86*

T84 – Maturity of financing liabilities from real estate financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2014	409.6	1,528.7	994.1	2,932.4
31.12.2013	183.2	1,279.1	1,096.6	2,558.9

T85 – Maturity of financing liabilities from lease financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2014	4.4	11.6	11.9	27.9
31.12.2013	3.9	10.5	10.4	24.8

T86 – Future minimum lease payments 2014

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total 31.12.2014**
Minimum lease payments	4.9	15.9	28.0	48.8
Financing costs	0.5	4.3	16.1	20.9
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**4.4**	**11.6**	**11.9**	**27.9**

The reconciliation as at 31 December 2013 is as follows:

T87 – Future minimum lease payments 2013

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total 31.12.2013**
Minimum lease payments	4.3	14.6	15.6	34.5
Financing costs	0.4	4.1	5.2	9.7
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**3.9**	**10.5**	**10.4**	**24.8**

Detailed information on lease financing can be found in section E.2.

14. Other liabilities

Other liabilities are composed as follows:

T88 – Other liabilities

€ million	**31.12.2014**	*31.12.2013*
Interest derivatives	181.7	52.0
Advance payments received	57.0	17.1
Trade payables	42.2	36.8
Rental and lease liabilities	11.8	11.7
Liabilities from other taxes	3.7	2.4
Liabilities to employees	6.4	5.0
Social security liabilities	0.5	0.5
Operating cost liabilities	0.3	0.5
Interest benefit recognised as a liability	6.8	6.9
Other miscellaneous liabilities	10.3	8.2
OTHER LIABILITIES	**320.7**	**141.1**
Thereof with a remaining term up to 1 year	206.1	77.5
Thereof with a remaining term of between 1 – 5 years	12.4	12.7
Thereof with a remaining term of more than 5 years	102.2	50.9

The rise in interest rate derivatives is due to the general decline in interest rates as against 31 December 2013. In addition, interest rate derivatives rose further as a result of the separable embedded derivatives of the convertible bond at a fair value of EUR 79.3 million.

15. Tax liabilities

Current and non-current tax liabilities in the amount of EUR 33.1 million (2013: EUR 42 million) essentially consist of the present value of the settlement of the "EK 02" taxable equity of several Group companies in the amount of EUR 25.9 million (2013: EUR 33.5 million). Under the 2008 German Annual Tax Act, the previous distribution-based regulation on the treatment of "EK 02" equity was repealed and flat-rate instalment payments were introduced in its place. The resulting tax amount is to be paid in equal annual instalments over a ten-year period from 2008 to 2017. This means that a distribution no longer results in corporation tax expense.

Deferred tax assets and liabilities result from temporary differences between the IFRS and tax carrying amounts and tax loss carryforwards. They are broken down as follows:

T89 – Deferred tax assets and liabilities

	31.12.2014		*31.12.2013*	
€ million	*Deferred tax assets*	*Deferred tax liabilities*	*Deferred tax assets*	*Deferred tax liabilities*
Investment properties				
Other non-current assets	0.7	376.0	1.9	273.1
Other miscellaneous non-current assets	5.7	8.2	4.2	9.4
Current assets	11.2	2.7	6.0	2.2
Non-current liabilities				
Pension provisions	25.8	–	13.3	–
Other provisions	3.5	0.1	3.3	0.3
Other non-current liabilities	31.9	58.1	20.0	60.8
Current liabilities				
Other provisions	0.8	14.6	0.4	1.4
Other current liabilities	27.4	14.8	2.0	0.5
TOTAL DEFERRED TAXES FROM TEMPORARY DIFFERENCES	**107.0**	**474.5**	**51.1**	**347.7**
Deferred taxes on loss carryforwards	71.9	–	70.7	–
TOTAL DEFERRED TAXES	**178.9**	**474.5**	**121.8**	**347.7**
Netting	166.2	166.2	116.5	116.5
CARRYING AMOUNT	**12.7**	**308.3**	**5.3**	**231.2**

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.

T90 – Deferred tax assets from tax loss

€ million	**31.12.2014**	*31.12.2013*
Corporation tax	40.1	42.6
Trade tax	31.8	28.1
TOTAL	**71.9**	**70.7**

Deferred tax assets from tax loss carryforwards are recognised in the same amount as deferred tax liabilities from temporary differences. Deferred tax assets from tax loss carryforwards in excess of this amount are only recognised to the extent that it is probable that the company will generate taxable income.

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 can only be 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 (extended) fiscal entity, as was the case in the previous year.

In the 2014 financial year, the remeasurement of primary and derivative financial instruments increased equity by EUR 11.2 million (2013: reduction in equity of EUR 8.1 million), while actuarial gains and losses increased equity by EUR 9.6 million (2013: reduction in equity of EUR 2.5 million). As at the end of the reporting period, deferred taxes recognised in equity amounted to EUR 38.4 million (2013: EUR 17.7 million).

No deferred tax liabilities were recognised on temporary differences in connection with shares in subsidiaries, associates and joint ventures that are expected to reverse in the foreseeable future in accordance with IAS 12.29 of EUR 15.9 million (2013: EUR 17.0 million).

F. Notes to the consolidated statement of comprehensive income

1. Net rental and lease income

T91 – Net rental and lease income

€ million	**2014**	*2013*
Net cold rent	390.1	360.5
Net income from operating costs	1.3	–0.7
Maintenance expenses	–45.7	–41.8
Staff costs	–33.2	–33.0
thereof IPO-costs	–	–2.1
Impairment losses on rent receivables	–5.4	–4.5
Depreciation	–4.2	–4.1
IPO-reimbursement	–	2.1
Others	–18.0	–20.8
NET RENTAL AND LEASE INCOME	**284.9**	**257.7**
NET OPERATING INCOME MARGIN (IN %)	**73.0**	**71.5**

In 2014 the LEG Group increased its net rental and lease income by EUR 27.2 million compared to the previous year. The main drivers in this development were the EUR 29.6 million rise in net in-place rent and, offsetting this, the EUR 3.9 million higher maintenance expenses, due in part to a slight decline in the capitalisation rate.

Rent increases and the acquisitions of property portfolios contributed to a rise in net in-place rent of 8.2% from EUR 360.5 million in the previous year to EUR 390.1 million in the period under review.

Following the successful implementation of the IPO in February 2013, performance bonuses of EUR 4.7 million were granted to employees in the previous year. The share of this cost that was allocated to the cost of sales in connection with rental and lease income was EUR 2.1 million. The performance bonuses were charged in full to the shareholders Restio B.V. and Perry Luxco S.à r.l.

The LEG Group invested selectively in its assets in the reporting period. Investing activities in the period under review focused on measures aimed at facilitating the new letting of vacant apartments. At EUR 89.1 million, total investment was EUR 3.6 million higher than in the previous year. The increase is due to the growth of the portfolio. Around EUR 2.6 million of total investments related to the newly acquired properties.

2. Net income from the disposal of investment property

Net income from the disposal of investment property is broken down as follows:

T92 – Net income from the disposal of investment properties

€ million	**2014**	*2013*
Income from the disposal of investment properties	37.6	15.2
Carrying amount of investment properties disposed of	–37.2	–15.0
INCOME (+)/LOSS (–) FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**0.4**	**0.2**
€ million	**2014**	*2013*
Staff costs	–0.8	–0.6
Other operating expenses	–1.3	–1.3
COST OF SALE IN CONNECTION WITH INVESTMENT PROPERTIES SOLD	**–2.1**	**–1.9**
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–1.7**	**–1.7**

Net income from the disposal of investment property contains the gains and losses on the disposal of investment property. Please also see section D.11 for information on sales proceeds and carrying amount disposals.

The higher sales volume led to higher commission on sales in the reporting period (up EUR 0.5 million). This was offset by the costs to sell of a commercial property disposed of in the second quarter of 2014, for which a provision of EUR 0.3 million was ultimately recognised in 2013. The costs to sell the investment property sold therefore rose by EUR 0.2 million in the reporting period.

3. Net income from the remeasurement of investment property

Net income from the remeasurement of investment property amounted to EUR 143.0 million in 2014 (2013: EUR 81.6 million). Based on the portfolio as at the end of the reporting period, this corresponds to an increase in value of around 2.8%. The increase in in-place rent and the development in the discount rate had a positive impact on net remeasurement income in the current financial year. This was countered by the rise in real estate transfer tax and slightly higher maintenance and management cost rates.

The average value of residential investment property (including IFRS 5 properties) was EUR 827/sqm as at 31 December 2014 (31 December 2013: EUR 806/sqm) including acquisitions and EUR 839 including acquisitions. Thus, a year-on-year increase of 4.1% in the value in euro per square metre (including investments in the portfolio but not including acquisitions) was generated in the 2014 financial year.

4. Net income from the disposal of real estate inventory

Net income from the disposal of real estate inventory is composed as follows: Table *T93*

The disposal of the remaining properties of the former Development division continued in 2014 with decreasing sales volumes. The remaining real estate inventory held as at 31 December 2014 amounted to EUR 4.2 million, EUR 2.8 million of which related to properties under development.

A reimbursement of development costs for a property already sold of EUR 0.5 million and minor staff savings led to a year-on-year decline in the cost of sales for the real estate inventory sold of EUR 0.7 million.

T93 – Net income from the disposal of inventory properties

€ million	**2014**	*2013*
Income from real estate inventory disposed of	5.7	9.0
Carrying amount of real estate inventory disposed of	–5.0	–7.6
GROSS PROFIT FROM THE DISPOSAL OF REAL ESTATE INVENTORY	**0.7**	**1.4**
€ million	**2014**	*2013*
Other operating expenses	–1.6	–1.7
Staff costs	–1.7	–2.0
Purchased services and other	–0.5	–0.8
COST OF SALES OF REAL ESTATE INVENTORY DISPOSED OF	**–3.8**	**–4.5**
NET INCOME FROM THE DISPOSAL OF REAL ESTATE INVENTORY	**–3.1**	**–3.1**

5. Net income from other services

Net income from other services is composed as follows:

T94 – Net income from other services

€ million	**2014**	*2013*
INCOME FROM OTHER SERVICES	**9.3**	**9.7**
Purchased services	–3.3	–3.0
Other operating expenses	–3.0	–1.5
Staff costs	–0.9	–0.6
Depreciation, amortisation and write-downs	–2.4	–2.3
EXPENSES IN CONNECTION WITH OTHER SERVICES	**–9.6**	**–7.4**
NET INCOME FROM OTHER SERVICES	**–0.3**	**2.3**

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

There were non-recurring effects in both the reporting period and the comparative period, which resulted in a decline in net income from other services.

The decline in income from electricity production was offset by a rise in costs of materials and the one-time addition to a provision, which essentially contributed to the rise in costs in connection with other services.

The acquisition of the former Vitus companies also resulted in higher income and expenses for third-party management services.

6. Administrative and other expenses

Administrative and other expenses are composed as follows:

T95 – Administrative and other expenses

€ million	**2014**	*2013*
Other operating expenses	–16.9	–22.7
Staff costs	–21.6	–25.4
Purchased services	–0.9	–1.1
Depreciation, amortisation and write-downs	–2.2	–2.3
ADMINISTRATIVE AND OTHER EXPENSES	**–41.6**	**–51.5**

The other operating expenses contained in the table above are composed as follows:

T96 – Other operating expenses

€ million	**2014**	*2013*
Legal and consulting costs	–9.5	–14.4
Rent and other costs of business premises	–4.6	–4.4
Annual financial statement, accounting and audit costs	–1.9	–1.8
Expenses for postage, telecommunications, IT	–0.4	–0.6
Temporary staff	–0.1	–0.2
Vehicles	–0.4	–0.5
Travel expenses	–0.4	–0.4
Advertising expenses	–0.1	–0.1
Other expenses	0.6	–9.4
Reimbursement of IPO costs by shareholders	–	9.1
OTHER OPERATING EXPENSES	**–16.9**	**–22.7**

Administrative and other expenses were strongly defined by non-recurring effects overall.

The IPO on 1 February 2013 caused additional consulting and non-staff operating costs of EUR 6.6 million in the previous year, which are reported in other operating expenses; project-related, non-recurring costs declined by EUR 1.3 million. The increase in the provision for risks from a former Development project added EUR 4.1 million to other operating expenses in the previous year.

The main reason for the reduction in staff costs is the absence of the performance bonuses paid in connection with the IPO in 2013. The share attributable to administrative and other expenses amounted to EUR 2.5 million in the previous year. The long-term incentive (LTI) programme resulted in non-cash expenses in the reporting period down by EUR 2.1 million.

This was offset by rising ongoing staff costs, which were affected by higher expenses under the short-term incentive (STI) programme (increase of EUR 0.7 million).

Despite the growing size of the portfolio and the increase in standard wages, current administrative expenses were reduced further from EUR 35.2 million in the previous year to EUR 33.1 million in the reporting period (EUR 0.5 million of which due to the Vitus portfolio included in consolidation for the first time as at 1 November 2014). In particular, this reflects the positive cost effects of the reduction in the number of Supervisory Board members and the decline in consulting and non-staff operating costs.

7. Interest income

Interest income is composed as follows:

T97 – Interest income

€ million	**2014**	*2013*
Interest income from bank balances	0.9	0.8
Interest income from discounting	0.0	0.1
Other interest income	0.3	0.1
INTEREST INCOME	**1.2**	**1.0**

8. Interest expenses

Interest expenses are composed as follows:

T98 – Interest expenses

€ million	**2014**	*2013*
Interest expenses from real estate financing	–69.7	–67.8
Interest expense from loan amortisation	–24.6	–30.2
Interest expense from interest derivatives for real estate financing	–26.3	–25.3
Interest expense from change in pension provisions	–4.0	–3.6
Interest expense from interest on other assets and liabilities	–2.3	–2.3
Interest expenses from lease financing	–1.5	–1.6
Other interest expenses	–0.1	–0.6
INTEREST EXPENSES	**–128.5**	**–131.4**

The rise in interest expenses from property financing resulted in particular from the increase in the loan volume in the 2014 financial year. Countering this, lower general interest rates compared to 2013 also led to a reduction in interest expenses from property financing and an increase in interest expenses from interest rate derivatives.

The drop in interest expenses from loan amortisation results in particular from the absence of one-time effects incurred for refinancing activities in 2013. This was offset by amortisation effects of the convertible bond of EUR 4.5 million included in the interest expenses from loan amortisation.

9. Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of stand-alone 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 –42.3 million (previous year: EUR 2.4 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of derivatives from the convertible bond of EUR –33.7 million (previous year: EUR 0 million).

As in the previous year, there were no ineffective hedges to report in the 2014 financial year.

10. Income taxes

Income tax expense and income is broken down by origin as follows:

T99 – Income taxes

€ million	**2014**	*2013*
Current income taxes	–6.8	0.5
Deferred taxes	–55.9	–22.2
INCOME TAXES	**–62.7**	**–21.7**
Tax reimbursement for prior years	0.2	0.5

Based on the consolidated net profit before income taxes and the expected income tax expense, the reconciliation to current income tax expense is as follows:

T 100 – Reconciliation to current income tax expenses

€ million	**2014**	*2013*
IFRS earnings before income taxes	219.5	158.6
Group tax rate in %	31.2	31.2
FORECAST INCOME TAXES	**–68.5**	**–49.5**
Tax reduction due to tax-free income and off-balance sheet deductions	17.6	23.8
Additional taxes due to non-deductible expenses and off-balance sheet additions	–2.5	–3.2
Tax effect due to deferred tax assets on tax loss carryforwards and not recognised deferred tax assets due to lack of recoverability	–15.2	–3.1
Tax expenses relating to prior periods	8.8	9.8
Tax effect of measurement of associates and joint ventures using the equity method	–0.4	–1.0
Others	–2.5	1.5
INCOME TAXES AS PER STATEMENT OF COMPREHENSIVE INCOME	**–62.7**	**–21.7**
Effective tax rate in %	28.6	13.6

The deferred taxes from non-current assets and non-current liabilities are expected to reverse 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).

11. 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.

T 101 – Earnings per share

	2014	*2013*
Net profit or loss attributable to shareholders in € million	155.8	135.2
Average numbers of shares outstanding	53,885,944	52,963,444
EARNINGS PER SHARE (BASIC) IN €	**2.89**	**2.55**

As at 31 December 2014 LEG AG had potential ordinary shares from a convertible bond, which authorise the bearer to convert it into up to 3.1 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 for the period is adjusted for the expenses no longer incurred for the interest coupon, the measurement of the embedded derivatives, the amortisation of the convertible bond and the resulting tax effect in the event of conversion rights being exercised in full.

Owing in particular to the expenses incurred 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.

The diluted earnings per share are equal to the basic earnings per share.

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, less the trust assets reported in the statement of financial position.

2. Other notes to the statement of cash flows

In the 2014 financial year seven former Vitus companies were acquired for EUR 455.4 million less the cash and cash equivalents assumed of EUR 6.9 million. In addition, the remaining shares in Rote Rose were acquired for EUR 6.0 million. There were no payments for the acquisition of subsidiaries in 2013.

In the previous year, 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

H. Notes on Group segment reporting

In accordance with IFRS 8, LEG Immo's segment reporting is based on the structure of internal management reporting. LEG distinguishes between the Residential and Other segments.

The Residential segment comprises all residential and commercial property holdings and owner-occupied properties. The Residential segment comprises the portfolio companies and LEG Wohnen NRW. Property portfolios from completed project developments that are now let under long-term agreements and exclusively owned by the Group are also assigned to the Residential segment.

The Other segment comprises the development companies and the companies LEG Management GmbH, LCS Consulting and Service GmbH. Leased properties from the development business that are available for disposal are also reported in the Other segment. LEG Management GmbH, which is assigned to the Other segment, primarily focuses on tasks relating to administrative functions and corporate management activities.

FFO and LTV are the main performance indicators used by management.

Intragroup transactions between the segments are conducted at arm's length conditions.

Group segment reporting for the period from 1 January to 31 December 2014

T 102 – Segment reporting 2014

€ million	*Residential*	*Other*	*Reconciliation*	*Group*
P&L position				
Rental and lease income	573.8	5.2	–2.2	576.8
Cost of sales of rental and letting	–291.1	–2.5	1.7	–291.9
NET RENTAL AND LEASE INCOME	**282.7**	**2.7**	**–0.5**	**284.9**
Net income from the disposal of IAS 40 property	–1.2	–0.5	–	–1.7
Net income from the measurement of IAS 40 property	144.0	–1.0	–	143.0
Net income from the disposal of real estate inventory	0.2	–3.3	–	–3.1
Net income from other services	0.5	27.8	–28.6	–0.3
Administrative and other expenses	–37.8	–33.0	29.2	–41.6
Other income	0.3	0.3	–0.1	0.5
SEGMENT EARNINGS	**388.7**	**–7.0**	**–0.0**	**381.7**
Statement of financial position item				
Segment assets (IAS 40)	**5,864.9**	**49.4**	**–**	**5,914.3**
Key figures				
Rentable area in sqm[1]	6,851,050	3,627		6,854,677
Monthly target rents as of end of reporting period	34.8	0.0		34.8
Vacancy rate by residential units in %	2.8	3.3		2.8

[1] excl. commercial areas

Group segment reporting for the period from 1 January to 31 December 2013

T 103 – Segment reporting 2013

€ million	*Residential*	*Other*	*Reconciliation*	*Group*
P&L position				
Rental and lease income	527.9	6.3	–2.1	532.1
Cost of sales of rental and letting	–273.5	–3.1	2.2	–274.4
NET RENTAL AND LEASE INCOME	**254.4**	**3.2**	**0.1**	**257.7**
Net income from the disposal of IAS 40 property	–0.3	–1.4	–	–1.7
Net income from the measurement of IAS 40 property	83.2	–1.6	–	81.6
Net income from the disposal of real estate inventory	0.4	–3.6	0.1	–3.1
Net income from other services	0.5	33.0	–31.2	2.3
Administrative and other expenses	–42.9	–39.6	31.0	–51.5
Other income	0.2	–	–	0.2
SEGMENT EARNINGS	**295.5**	**–10.0**	**–**	**285.5**
Statement of financial position item				
Segment assets (IAS 40)	**5,104.7**	**58.7**	**–**	**5,163.4**
Key figures				
Rentable area in sqm[1]	6,029,983	3,627		6,033,610
Monthly target rents as of end of reporting period	29.9	0.0		29.9
Vacancy rate by residential units in %	2.9	0.0		2.9

[1] excl. commercial areas

I. Other disclosures

1. Overview of cost types

The following cost types are contained in the various functions:

T104 – Cost types

€ million	**2014**	*2013*
Purchased services	239.0	226.2
Staff costs	58.2	61.8
Depreciation, amortisation and write-downs	8.5	8.7
Other operating expenses	44.8	54.4

Other operating expenses contain income from the reversal of write-downs and provisions, among other things.

2. Capital management

The aim of the Group's capital management is to ensure the continued existence of the company while generating income for its shareholders, in addition to providing all of the 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 net gearing. Net gearing describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from financial 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 at economically appropriate costs. Gearing as at 31 December 2014 and in the previous year was calculated as follows:

T105 – Net gearing (LTV)

€ million	**31.12.2014**	*31.12.2013*
Financing liabilities	2,960.3	2,583.7
Cash and cash equivalents	129.9	110.7
NET DEBT	**2,830.4**	**2,473.0**
Investment properties	5,914.3	5,163.4
Assets held for sale	58.4	16.4
Prepayments for investment properties	16.8	6.9
TOTAL	**5,989.5**	**5,186.7**
NET GEARING (LTV) IN %	**47.26**	**47.68**

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 D.10.

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 IAS 39 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:

T106 – Classes of financial instruments for financial assets and liabilities 2014

		Measurement (IAS 39)		*Measurement*	
€ million	*Carrying amounts as per statement of financial positions 31.12.2014*	*Amortised cost*	*Fair value through profit or loss*	*IAS 17*	*Fair value 31.12.2014*
Assets					
Other financial assets	**2.4**				**2.4**
LaR	0.1	0.1	0.0		0.1
AfS	2.3	2.3			2.3
Receivables and other assets	**29.6**				**29.6**
LaR	25.2	25.2			25.2
Other non-financial assets	4.4				4.4
Cash and cash equivalents	**129.9**				**129.9**
LaR	129.9	129.9			129.9
TOTAL	**161.9**	**157.5**	**0.0**		**161.9**
Of which IAS 39 measurement categories					
LaR	155.2	155.2			155.2
AfS	2.3	2.3			2.3
Equity and liabilities					
Financial liabilities	**–2,960.3**				**–3,335.3**
FLAC	–2,932.4	–2,932.4			–3,306.9
Liabilities from lease financing	–27.9			–27.9	–28.4
Other liabilities	**–320.7**				**–320.7**
FLAC	–37.8	–37.8			–37.8
Derivatives HFT	–93.3		–93.3		–93.3
Hedge accounting derivatives	–88.4				–88.4
Other non-financial liabilities	–101.2				–101.2
TOTAL	**–3,281.0**	**–2,970.2**	**–93.3**	**–27.9**	**–3,656.0**
Of which IAS 39 measurement categories					
FLAC	–2,970.2	–2,970.2			–3,344.7
Derivatives HFT	–93.3		–93.3		–93.3

LaR = Loans and Receivables
HFT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost
FAHFT = Financial Assets Held for Trading
FLHFT = Financial Liabilities Held for Trading

T107 – Classes of financial instruments for financial assets and liabilities 2013

€ million	Carrying amounts as per statement of financial positions 31.12.2013	Measurement (IAS 39) Amortised cost	Fair value through profit or loss	Measurement IAS 17	Fair value 31.12.2013
Assets					
Other financial assets	**3.6**				**3.6**
LaR	0.1	0.1	0.0		0.1
AfS	3.5	3.5			3.5
Receivables and other assets	**23.8**				**23.8**
LaR	21.8	21.8			21.8
Other non-financial assets	2.0				2.0
Cash and cash equivalents	**110.7**				**110.7**
LaR	110.7	110.7			110.7
TOTAL	**138.1**	**136.1**	**0.0**		**138.1**
Of which IAS 39 measurement categories					
LaR	132.6	132.6			132.6
AfS	3.5	3.5			3.5
Equity and liabilities					
Financial liabilities	**–2,583.7**				**–2,738.0**
FLAC	–2,558.9	–2,558.9			–2,713.1
Liabilities from lease financing	–24.8			–24.8	–24.9
Other liabilities	**–141.1**				**–141.1**
FLAC	–29.7	–29.7			–29.7
Derivatives HFT	–2.3		–2.3		–2.3
Hedge accounting derivatives	–49.7				–49.7
Other non-financial liabilities	–59.4				–59.4
TOTAL	**–2,724.8**	**–2,588.6**	**–2.3**	**–24.8**	**–2,879.1**
Of which IAS 39 measurement categories					
FLAC	–2,588.6	–2,588.6			–2,742.8
Derivatives HFT	–2.3		–2.3		–2.3

LaR = Loans and Receivables
HFT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost
FAHFT = Financial Assets Held for Trading
FLHFT = Financial Liabilities Held for Trading

It was not possible to reliably determine the fair value of investments carried at amortised cost (see AfS in the table above). There is no intention to sell these investments.

The vast majority of trade payables and other liabilities have short remaining maturities, 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:

T108 – Net income

€ million	2014	2013
LaR	–5.0	–2.5
AfS	1.8	1.2
FAHFT	–	–
FLHFT	–44.8	–0.2
FLAC	–94.3	–98.4
TOTAL	**–142.3**	**–99.9**

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 Finance and Properties and Controlling and Risk Management units, 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 instrument, 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 15.5 million. Allowances of EUR 9.2 million were recognised, hence net rent receivables of EUR 6.3 million were reported as at 31 December 2014. Collateral for receivables (primarily rent deposits) of EUR 8.5 million is taken into account in the offsetting of outstanding receivables if the legal conditions are met in the individual case.

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 general allowances 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: Table *T109 / 110*

Furthermore, the table below shows the maturity structure of the financial assets past due but not impaired as at the end of the reporting period. Table *T111 / 112*

Regarding the receivables neither past due nor impaired, there were no indications as at the end of the reporting period that the debtors will fail to meet their payment obligations.

The LEG Group also recognises portfolio allowances in addition to specific allowances, using various rates depending on the extent to which the respective receivables are past due.

T109 – Impaired financial assets 2014

€ million; classes of financial instruments 31.12.2014	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	1.6	–1.3	0.3
Other financial assets	13.9	–1.6	12.3
Trade receivables	25.1	–10.5	14.6
Cash and cash equivalents	129.9	–	129.9
TOTAL	**170.5**	**–13.4**	**157.1**

T110 – Impaired financial assets 2013

€ million; classes of financial instruments 31.12.2013	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	2.5	–1.3	1.2
Other financial assets	15.7	–2.8	12.9
Trade receivables	19.1	–7.9	11.2
Cash and cash equivalents	110.7	–	110.7
TOTAL	**148.0**	**–12.0**	**136.0**

T111 – Not impaired financial assets 2014

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€million; classes of financial instruments 31.12.2014		*< 90 days*	*90 – 180 days*	*> 180 days*
Trade receivables	3.7	3.4	0.1	0.2
Other financial assets	0.4	0.1	0.1	0.2
TOTAL	**4.1**	**3.5**	**0.2**	**0.4**

T112 – Not impaired financial assets 2013

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€million; classes of financial instruments 31.12.2013		*< 90 days*	*90 – 180 days*	*> 180 days*
Trade receivables	3.8	3.5	–	0.3
Other financial assets	–	–	–	–
TOTAL	**3.8**	**3.5**	**–**	**0.3**

T113 – Impairment losses 2014

€ million	*As of 01.01.2014*	*Addition*	*Utilisation*	*Changes in consolidated companies*	*As of 31.12.2014*
Loans and receivables	1.3	–	–	–	1.3
Trade receivables	7.9	9.1	−7.3	0.8	10.5
Other financial assets	2.2	1.7	−2.4	0.1	1.6
TOTAL	**11.4**	**10.8**	**−9.7**	**0.9**	**13.4**

T114 – Impairment losses 2013

€ million	*As of 01.01.2013*	*Addition*	*Utilisation*	*Changes in consolidated companies*	*As of 31.12.2013*
Loans and receivables	1.3	0.1	−0.1	–	1.3
Trade receivables	7.0	5.9	−5.0	–	7.9
Other financial assets	1.9	0.5	−0.2	–	2.2
TOTAL	**10.2**	**6.5**	**−5.3**	**–**	**11.4**

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 Finance and Properties 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 12.5 million (previous year: EUR 12.5 million).

The following table shows the contractually agreed (undiscounted) interest and principal payments for the LEG Group's primary financial liabilities and its liability derivative financial instruments. The maturities are based on the contractually agreed fixed interest periods for the respective financial liabilities. Table *T115*

The rise in current financial liabilities from loans liabilities is due in particular to the EUR 300 million convertible bond issued in 2014.

The embedded derivatives give rise to only 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.

T115 – Type of liabilities on 31.12.2014

	Carrying amount	*Remaining terms*		
€ million		*<1 year*	*1 – 5 years*	*>5 years*
Financing liabilities from loan payable	2,932.4	490.9	1,672.8	1,613.5
Financing liabilities from lease financing	27.9	4.4	11.6	11.9
Interest rate derivatives	102.5	27.2	69.8	7.1
Embedded derivatives	79.3	–	–	–
Liabilities to employees	6.4	6.1	0.0	0.3
Liabilities from operating costs	0.3	0.3	–	–
Rent and lease liabilities	11.8	11.8	–	–
Trade payables	42.2	39.8	2.4	0.0
Others	5.9	3.6	1.3	1.0
TOTAL	**3,129.4**	**584.1**	**1,757.9**	**1,633.8**

Together with the acquisition financing and refinancing, this led to an increase and shift in the remaining terms of financial liabilities from loan liabilities.

T116 – Type of liabilities on 31.12.2013

	Carrying amount	*Remaining terms*		
€ million		*< 1 year*	*1 – 5 years*	*> 5 years*
Financing liabilities from loan payable	2,558.9	222.0	1,456.0	1,740.1
Financing liabilities from lease financing	24.8	3.9	10.5	10.4
Interest rate derivatives	52.0	22.7	36.6	–5.8
Embedded derivatives	–	–	–	–
Liabilities to employees	5.0	4.7	–	0.3
Liabilities from operating costs	0.5	0.5	–	–
Rent and lease liabilities	11.7	11.7	–	–
Trade payables	36.8	33.2	3.6	0.0
Others	5.1	3.9	1.1	0.1
TOTAL	**2,694.8**	**302.6**	**1,507.8**	**1,745.1**

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. The variable 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 noncompliance. 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. Compliance with covenants is monitored on an ongoing basis. There were no violations of the agreed covenants in the 2014 financial year.

d) Market risk

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 94% of financial liabilities to banks 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 2014:

T117 – Derivatives 2014

€ million on 31.12.2014	*Fair value*	*thereof < 1 year*
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	–93.3	–
thereof from interest rate swaps	–14.0	–
thereof embedded derivatives	–79.3	–
Hedged derivatives	–88.4	–1.3

The Group had the following derivative financial instruments as at 31 December 2013:

T 118 – Derivatives 2013

€ million on 31.12.2013	*Fair value*	*thereof < 1 year*
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	–2.3	–0.1
thereof from interest rate swaps	–2.3	–0.1
thereof embedded derivatives	–	–
Hedged derivatives	–49.7	–1.1

The derivatives entered into by the LEG Group are used as hedging instruments in accordance with IAS 39 if they meet the conditions for hedge accounting. The cash flows from hedged items in cash flow hedge accounting will be received between 2016 and 2022 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. This corresponds to the effective portion of the change in fair value:

T 119 – Equity implication

€ million	**2014**	*2013*
OPERATING BALANCE AS OF 01.01.	**–45.2**	**–78.7**
Recognised in equity in reporting period	–64.9	10.3
Reserved from equity to statement of comprehensive income	23.1	23.2
CLOSING BALANCE AS OF 31.12.	**–87.0**	**–45.2**

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 observed using a +/–50 bp parallel shift in the euro yield curve are analysed 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:

T 120 – Financial instruments 2014

	Equity effect		*Comprehensive income effect*	
€ million on 31.12.2014	*+ 50 bp*	*– 50 bp*	*+ 50 bp*	*– 50 bp*
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–2.0	2.0
Interest rate derivatives	26.4	–24.3	4.7	–4.6
Embedded derivatives	–	–	–8.8	9.1

bp = basis points

T 121 – Financial instruments 2013

	Equity effect		*Comprehensive income effect*	
€ million on 31.12.2013	*+ 50 bp*	*– 50 bp*	*+ 50 bp*	*– 50 bp*
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–1.6	1.6
Interest rate derivatives	30.9	–30.9	6.1	–6.1
Embedded derivatives	–	–	–	–

bp = basis points

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 17.6 million higher (lower).

e) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T122 – Financial assets

				Related amounts, which are not netted in the balance sheet		
€ 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*	*Financial instruments*	*Received cash deposits*	*Net amount*
31.12.2014						
Inventories in progress	183.9	–177.4	6.5	–	–	6.5
Cash and cash equivalents	129.9	–	129.9	–1.6	–	128.3
TOTAL	**313.8**	**–177.4**	**136.4**	**–1.6**	**–**	**134.8**
31.12.2013						
Inventories in progress	161.1	–171.0	6.6	–	–	6.6
Cash and cash equivalents	110.7	–	110.7	–2.4	–	108.3
TOTAL	**271.8**	**–171.0**	**117.3**	**–2.4**	**–**	**114.9**

The following financial liabilities are subject to offsetting:

T123 – Financing liabilities

				Related amounts, which are not netted in the balance sheet		
€ million	*Gross amount of the admitted financial liabilities*	*Gross amount of the admitted financial assets, which have been netted in the balance sheet*	*Net amount of the admitted financial liabilities, which are considered in the balance sheet*	*Financial instruments*	*Rendered cash deposits*	*Net amount*
31.12.2014						
Advanced payments received	–183.2	177.4	–5.8	–	–	–5.8
Financing liabilities from real estate financing	–2,932.4	–	–2,932.4	1.6	–	–2,930.8
TOTAL	**–3,115.6**	**177.4**	**–2,938.2**	**1.6**	**–**	**–2,936.6**
31.12.2013						
Advanced payments received	–171.0	161.1	–16.5	–	–	–16.5
Financing liabilities from real estate financing	–2,558.9	–	–2,558.9	2.4	–	–2,556.5
TOTAL	**–2,729.9**	**161.1**	**–2,575.4**	**2.4**	**–**	**–2,573.0**

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 at the LEG Group broken down by segment developed as follows compared with the previous year:

T 124 – Average number of employees

	Average number of employees 2014	**Employee capacity (FTE) 2014**	*Average number of employees 2013*	*Employee capacity (FTE) 2013*
Residential	744	615	615	505
Others	247	228	251	231
TOTAL	**991**	**843**	**866**	**736**

5. Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T 125 – Total auditor's fees

€ million	**2014**	*2013*
Audits of financial statements	1.4	1.3
Other audit services	0.5	0.1
TOTAL FEE	**1.9**	**1.4**

6. IFRS 2 programmes

a) Long-term incentive plan with former shareholders

Since 2011 some members of the Management Board of LEG Immo have concluded bilateral agreements with the former shareholders of Saturea B.V. and Perry Luxco RE S.à r.l.

The former shareholders of the LEG Group which granted the incentives intend to achieve a long-term increase in the equity until the time they sell their shares. Mr Hegel and Mr Schultz, the beneficiaries of the programme, made an important contribution to the future development of the LEG Group. The incentive programme is intended to allow the beneficiaries to participate in the success of the LEG Group and future value growth, while also incentivising them to increase the success and value of the LEG Group.

The incentive payments would have been due from the shareholders when several conditions were met cumulatively. This included the occurrence of an exit event, which was defined as a reduction in the shares of the LEG Group held by the former shareholders to less than 10 %. The LEG Group was also required to achieve a defined internal return and certain cash multiples by the exit date. The incentive payments are based on a percentage of the net cash flow received by the shareholders. There are various dates on which they were to be granted.

The incentive programme provided for direct payment by the shareholders. The LEG Group would be not required to make these payments. Accordingly, the incentive programme was treated as a share-based option plan in accordance with IFRS 2. Based on the adjusted assessment of the LEG Group's management concerning the probability and timing of the shareholders' exit, and the expectations of the cash flows to be received by the shareholders as at the grant date (taking into account various business scenarios), the economic scenarios and the two performance criteria, no bonus payment was expected as at 31 December 2013.

b) New LTIP Management Board agreements with former shareholders

As part of LEG Immo's IPO, on 17 January 2013 the previous long-term incentive agreements for members of management were dissolved and replaced by new agreements for the Management Board. Such an agreement was also concluded with a new member of the Management Board, Mr Hentschel, who was not a beneficiary of the old agreements.

The new agreements provide for shares in the holding company to be granted by the former shareholders to the members of the Management Board if the IPO results in a certain level of proceeds (less certain costs). The number of shares granted is determined with the aid of an established formula (partly dependent on the IPO price, IPO costs and an individual factor). Under this arrangement, the members of the Management Board are granted a third of their shares 12, 24 and 36 months after a successful IPO. In the event of the early departure of the beneficiary, the outstanding shares lapse by between 20% and 100% depending on the reason for departure. The replacement of the old agreements by the new agreements is accounted for as a modification of existing agreements in accordance with IFRS 2.28 f. This requires that the old commitment is accounted for as before, and any incremental fair value arising from the new commitment is also recognised as an expense from the modification date.

The incremental fair value is defined as the difference between the fair value of the original programme and the fair value of the new programme, each calculated as at the date of modification. Owing to the design of the old and new programmes, there was a positive difference as at the date of modification, with the result that the modification of the old agreements resulted in the distribution of an additional expense of EUR 1.1 million in total over the vesting period. For the Management Board members Mr Hegel and Mr Schutz the fair value of the commitments was as follows:

T126 – Calculated current value of LTIP-Promise

€ million	*Fair value old contracts*	*Fair value new contracts*	*Incremental Fair value*
Hegel	4.5	4.2	–
Schultz	2.2	3.3	1.1
TOTAL	**6.7**	**7.5**	**1.1**

The benefit granted to Mr Hentschel was determined as EUR 0.4 million as at the grant date in line with the regulations of IFRS 2.10 et seq. 94,922 shares were granted to Mr Hegel, 75,938 to Mr Schultz and 9,090 to Mr Hentschel. The exercise price per share granted was EUR 44.

As a result of the successful IPO of LEG Immo, claims arose under the new agreements between the former shareholders and the Management Board as at 31 December 2014, subject to the early departure of members of the Management Board. The costs of these agreements do not reduce liquidity at LEG Immo. Similarly, the regulations of IFRS 2 result in the different recognition of expenses at LEG Immo, in terms of both timing and amount.

In line with the regulations of IFRS 2, EUR 0.4 million of this was recognised as an expense at LEG as at 31 December 2014 (2013: EUR 0.6 million).

c) LTI Management Board agreements

The new agreements for members of the Management Board also 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.

If a Management Board member's appointment ends under certain conditions, tranches pending as at the date of the legal end of the appointment (tranches for which the performance period has not yet ended) expire without substitution. The programme is treated as cash-settled share-based remuneration in accordance with IFRS 2. On the basis of an assessment of the Management Board on the attainment of performance hurdles, staff costs of EUR 0.5 million (2013: EUR 0.3 million) were recognised as at 31 December 2014. For LTI 2014 a target level of 78% was achieved and for LTI 2013 a target level of 91% was achieved. Details on Management Board agreements can also be found in the remuneration report.

d) Settlement agreements for Supervisory Board members

Furthermore, in January 2013, the former shareholders concluded settlement agreements for consulting agreements with selected members of the Supervisory Board and incentive agreements with a company whose majority shareholder is a member of the Supervisory Board. In the event of a successful IPO, these consulting agreements provided for payments by the former shareholders while the incentive agreements provided for shares to be granted by the former shareholders. The agreements were recognised in accordance with the regulations on equity-settled share-based payment (see IFRS 2.43A et seq.). The benefit granted amounted to EUR 3.4 million as at the grant date. In one case the agreements provide for immediate vesting in the event of an IPO, in another case for graded vesting of claims by 1 December 2013 or 1 December 2014. Under the agreements there were total staff costs at LEG Immo of EUR 0.8 million as at 31 December 2014 (2013: EUR 2.7 million).

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

Until 22 January 2014 related persons included the officers of Saturea B.V. as a shareholder. On 23 January 2014 the shareholder Saturea B.V. sold a package of almost 15.2 million shares in an accelerated book-building procedure, thus reducing its holding from 28.65% to approximately 0.41%. Thus Saturea B.V. and its officers are no longer related parties within the meaning of IAS 24.

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

Until 22 January 2014, Saturea B.V. as a shareholder and its shareholder, the Whitehall fund, were identified as related companies of LEG Immo. Furthermore, until 22 January 2014, the associated company subsidiary Weiße Rose GmbH and all the subsidiaries and associates of the LEG Group and certain entities not included in consolidated financial statements were considered related companies.

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:

T127 – Receivables from and liabilities to related companies

€ million	**31.12.2014**	*31.12.2013*
Statement of financial positions		
Receivables from equity investments	0.4	0.4
Receivables from non-consolidated companies	0.2	0.1
Receivables from associates	0.0	0.5
Liabilities to shareholders	1.0	0.9
Liabilities to equity investments	–	1.1
Liabilities to non-consolidated companies	0.1	0.1
Liabilities to associates	–	0.0

T128 – Income from and expenses for related companies

€ million	**2014**	*2013*
Statement of comprehensive income		
Income from associates	0.3	0.3
Income from equity investments	1.6	1.5
Expenses for shareholders	–	–0.2
Expenses for non-consolidated companies	–	–

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:

T129 – Compensation package of the Management Board

€ thousand	**2014**	*2013*
Fixed remuneration [1]	1,060	957
Ancillary benefits	76	56
Total fixed benefits	1,136	1,013
Performance bonus	0	850
Short-Term-Incentive-Programme (STI)	690	630
Long-Term-Incentive-Programme (LTI)	398	718
Total variable benefits	1,088	2,198
TOTAL	**2,224**	**3,211**

[1] The fixed remuneration also includes remuneration from the interim contract agreement from 2 January – 1 February 2013.

The additional benefits for members of the Management Board amounted to EUR 76 thousand in the past financial year (previous year: EUR 56 thousand).

The performance bonus shown in the table for 2013 was agreed for the successful IPO in February 2013. Staff costs of EUR 0.9 million were recognised for this as at 31 December 2013.

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. The target STI cannot be exceeded overall. For 2014 (2013) an amount of EUR 0.3 million (EUR 0.3 million) was recognised in staff costs for Mr Hegel, of EUR 0.2 million (EUR 0.2 million) for Mr Schultz and EUR 0.2 million (EUR 0.1 million) for Mr Hentschel.

In addition, expenses of EUR 0.4 million were recognised from the long-term incentive plans with former shareholders in the reporting year (2013: EUR 0.6 million). Details can be found in section I.6.

No loans or advances were granted or extended to the members of the Management Board in the 2014 financial year.

The total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.5 million in 2014 (2013: EUR 0.6 million).

In addition, for certain members of the Supervisory Board, expenses of EUR 0.8 million were recognised in the financial year to settle consulting and incentive agreements (2013: EUR 2.7 million). The additional staff costs are passed on as part of the cost reimbursement by the former shareholders. There are no reductions in liquidity or earnings at the level of LEG Immo. Details can be found in section I.6.

No loans or advances were granted or extended to the members of the Supervisory Board in the 2014 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 (in thousands of euro):

T130 – Benefits to the Management and Supervisory Board

€ thousand	**2014**	*2013*
Current payable benefits	2,330	3,053
Benefits after termination of the employment	0	0
Other long-term payable benefits	27	25
Benefits in cause of the termination of employment	0	0
Share-based payment	1,576	3,547
TOTAL	**3,933**	**6,625**

Further information can be found in the remuneration report, which forms part of the management report.

8. Contingent liabilities

The LEG Group has the following contingent liabilities:

T 131 – Contingent liabilities

€ million	**31.12.2014**	*31.12.2013*
Land charges	2,902.9	2,822.2
Letters of comfort		
Amount of maximum utilisation (maximum guarantee)	0.5	0.5

The warranty agreements relate solely to letters of comfort for Group companies not included in consolidation. Appropriate provisions have been recognised for the rent guarantees issued in conjunction with disposals.

9. Other financial commitments

The Group's other financial commitments are composed as follows:

T 132 – Other financial commitments

€ million	**31.12.2014**	*31.12.2013*
Future payments under operating leases	73.4	64.8
Purchase obligations	3.4	4.1

Future payments under operating leases result, in particular, from obligations for land with third-party heritable building rights in the amount of EUR 59.4 million (previous year: EUR 49.1 million) and rental obligations in the amount of EUR 12.3 million (previous year: EUR 14.7 million).

Future payment obligations under non-cancellable operating leases are broken down as follows:

T 133 – Minimum lease payments

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2014	4.2	12.0	57.2	73.4
31.12.2013	4.2	12.4	48.2	64.8

The cost of minimum lease payments was EUR 3.2 million in the 2014 financial year (2013: EUR 3.2 million).

10. The Management Board

LEG Immobilien AG is represented by the Management Board, which consists of the following members:

MR THOMAS HEGEL,
CEO of LEG Immobilien AG, Erftstadt

MR ECKHARD SCHULTZ,
CFO of LEG Immobilien AG, Neuss

MR HOLGER HENTSCHEL,
COO of LEG Immobilien AG, Erkrath

Registered office of the company:
Hans-Boeckler-Strasse 38
40476 Dusseldorf, Germany
Commercial register: HRB 69386

Auditor:
PricewaterhouseCoopers AG
Frankfurt am Main
Dusseldorf branch
Moskauer Strasse 19
40227 Dusseldorf, Germany

11. The Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members and one alternate member.

The following members were elected by the shareholders' meeting:

MR NATHAN JAMES BROWN,
CFO, Perry Capital UK LLP, London, United Kingdom

MR JAMES GARMAN,
investment manager, Goldman Sachs International, London, United Kingdom – until 2 April 2014

MR DR. MARTIN HINTZE,
bank manager, Goldman Sachs International, London, United Kingdom – until 2 April 2014

MR STEFAN JÜTTE,
Deputy Chairman, businessman, Bonn

MR DR. JOHANNES LUDEWIG,
business consultant, Berlin

MS HEATHER MULAHASANI,
investment manager, Goldman Sachs International, London, United Kingdom – until 2 April 2014

MR DR. JOCHEN SCHARPE,
managing partner, AMCI GmbH, Munich

MR JÜRGEN SCHULTE-LAGGENBECK,
CFO, Otto GmbH & Co. KG, Hamburg

MR MICHAEL ZIMMER
– Chairman –; businessman, Pulheim

Alternate members of the Supervisory Board

MR MICHAEL FURTH,
London, United Kingdom – until 25 February 2014

MR CHETAN GULATI,
London, United Kingdom

MR RICHARD SPENCER,
Teddington, United Kingdom – until 25 February 2014

MR PATRICK TRIBOLET,
Dallas, USA – until 25 February 2014

12. Events after the end of the reporting period

LEG intends to secure the currently attractive interest rates and credit margins for the long term. Thus, loans of around EUR 900 million maturing in 2018 are to be refinanced early and replaced by new loan agreements with average terms of ten years. On the basis of current indications from financing partners, this will allow the reduction of average financing costs from 2.84% as at 31 December 2014 to provisionally less than 2.3%. At the same time, the average term is to be increased from 9.8 years to more than 11 years. The planned effects on earnings will be fully visible in 2016. The refinancing entails estimated non-recurring costs of around EUR 60 million.

EnergieServicePlus GmbH was founded by way of notarised agreement on 17 February 2015. The object of the company is to provide energy supply services and energy-related services.

There were no other transactions of material importance to the Group after the end of the financial year.

13. 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 http://www.leg-nrw.de/fileadmin/user_upload/Assets/PDFs/Unternehmen/Investor_Relations/Corporate_Governance/Entsprechenserklaerung_161_AktG_-_November_2014_e.pdf.

Dusseldorf, 19 March 2015

LEG Immobilien AG

The Management Board

THOMAS HEGEL, Erftstadt (CEO)

ECKHARD SCHULTZ, Neuss (CFO)

HOLGER HENTSCHEL, Erkrath (COO)

J. List of shareholdings

The following table shows an overview of the basis of consolidation of the LEG Group:

T134 – Consolidated companies

		Share of capital %	Equity* € thousand	Result* € thousand
LEG Immobilien AG, Dusseldorf		Parent company		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	108,542	10
LEG NRW GmbH, Dusseldorf	2)	99.98	915,496	19,200
LEG Wohnen GmbH, Dusseldorf	2)	100.00	584,868	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0
LEG Wohnen Bocholt GmbH, Dusseldorf	2)	100.00	25	0
LEG Bauträger GmbH, Dusseldorf	2)	100.00	5,412	0
LEG Bauen und Wohnen GmbH, Cologne	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, Muenster	2)	94.86	74,582	0
GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Muenster	2)	100.00	77	2
LEG Rheinrefugium Köln GmbH, Cologne	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 Grundstücksverwaltung GmbH, Dusseldorf	2)	100.00	26	47
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	345	0
LEG Solution GmbH, Dusseldorf (previously: LEG Standort- und Projektentwicklung GmbH, Dusseldorf)	3)	100.00	555	0
LEG Standort- und Projektentwicklung Köln GmbH, Cologne	2)	100.00	13,753	0
LEG Standort- und Projektentwicklung Essen GmbH, Essen	2)	100.00	54,314	0
LEG Standort- und Projektentwicklung Bielefeld GmbH, Bielefeld	2)	100.00	6,438	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Cologne	5)	51.00	–2,446	–1,624
LEG Grundstücksentwicklung Münsterland GmbH, Muenster	2)	94.90	–57	0
Grundstücksentwicklungsgesellschaft Ennigerloh Süd-Ost mbH, Ennigerloh	2)	94.90	–7,062	–199
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0
Gemeinnützige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Hoexter	2)	100.00	11,909	349
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0
Wohnungsgesellschaft Münsterland mbH, Muenster	2)	100.00	164,978	0
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Muenster	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
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	20**
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0
Grundstücksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	86,389	0
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Moenchengladbach	2)	94.90	19,676	26,247
AWM Grundstücksgesellschaft mbH, Moenchengladbach	2)	100.00	2,364	47

Consolidated companies

		Share of capital %	Equity* € thousand	Result* € thousand
Vitus Service GmbH, Moenchengladbach	1)	100.00	243	214
BRE / GEWG GmbH, Wuppertal	1)	100.00	21,141	–518
Gemeinnützige Eisenbahn Wohnungsbaugesellschaft mbH, Wuppertal	1)	94.90	–22,536	–1,355
GEWG Beteiligungsgesellschaft mbH, Wuppertal	1)	100.00	24	–3
GEWG Grundstücksgesellschaft GmbH & Co. KG, Wuppertal	2)	100.00	33,916	–5,151

* 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 2014. A zero result is shown in the event of there being a profit transfer agreement in place.
** Result after profit transfer.

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

T 135 – Non-consolidated companies

		Share of capital %	Equity* € thousand	Result* € thousand
Entwicklungsgesellschaft Rhein-Pfalz GmbH, Mainz	2)	100.00	25	0
Entwicklungsgesellschaft Rhein-Pfalz GmbH & Co. KG, Mainz	4)	100.00	1,561	–199
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Cologne	2)	51.00	32	0
LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	3)	100.00	103	–4
Grundstücksentwicklungsgesellschaft Essen-Kettwig-Ruhrufer GmbH, Essen	3)	100.00	0	0
LEG Grundbesitzerwerb 1 GmbH & Co. KG, Dusseldorf	1)	100.00	–33	–53

* These figures are the HGB single-entity equity and result as at 31 December 2013. The financial statements as at 31 December 2014 were used for LEG Grundbesitzerwerb 1 GmbH & Co. KG.

Activities of the companies not included in consolidation:

1) Property management
2) General partner in a limited liability company
3) Shell company
4) Performance of services for third parties

T 136 – Associates accounted for using the equity method

	Share of capital %	Equity* € thousand	Result* € thousand
Projektgesellschaft Hauptbahnhof Remscheid mbH, Remscheid	50.00	45	25
Area of Sports GmbH & Co. KG, Moenchengladbach	50.00	90	–8
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrueck	40.62	18,849	646
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3,516	70

* These figures are the HGB single-entity equity and result as at 31 December 2014.

T 137 – Associates not accounted for using the equity method

	Share of capital %	Equity* € thousand	Result* € thousand
Projektverwaltungsgesellschaft Mönchengladbach – Area of Sports GmbH, Moenchengladbach	50.00	25	0
Grundstücksgesellschaft Sendenhorst mbH, Sendenhorst	49.00	–369	62

* These figures are the HGB single-entity equity and result as at 31 December 2013.

CONSOLIDATED STATEMENT OF CHANGES IN ASSETS/ANNEX I

T138 – Consolidated statement of changes in assets 2014

	Costs						
€ million	*As of 01.01.2014*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*
Property, plant and equipment	**106.7**	**4.3**	**6.6**	**–2.5**	**1.3**	**–2.6**	**–2.6**
Land, land rights and buildings	28.2	1.4	0.5	–	1.3	–2.6	–2.6
Technical equipment and machinery	35.9	0.1	0.3	–0.3	–	–	–
Other equipment, operating and office equipment	9.2	0.8	0.3	–0.7	–	–	–
Finance leases	33.4	2.0	5.5	–1.5	–	–	–
Intangible assets	**12.6**	**61.9**	**0.5**	**–0.4**	**–**	**–**	**–**
Other intangible assets	12.6	0.3	0.5	–0.4	–	–	–
Goodwill	–	61.6	–	–	–	–	–
TOTAL	**119.3**	**66.2**	**7.1**	**–2.9**	**1.3**	**–2.6**	**–2.6**

T139 – Consolidated statement of changes in assets 2013

	Costs						
€ million	*As of 01.01.2013*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*
Property, plant and equipment	**106.7**	**–**	**4.3**	**–2.3**	**0.3**	**–1.1**	**–1.2**
Land, land rights and buildings	30.4	–	–	–0.2	0.3	–1.1	–1.2
Technical equipment and machinery	34.4	–	2.4	–0.9	–	–	–
Other equipment, operating and office equipment	9.5	–	0.2	–0.5	–	–	–
Finance leases	32.4	–	1.7	–0.7	–	–	–
Intangible assets	**12.5**	**–**	**0.1**	**–**	**–**	**–**	**–**
TOTAL	**119.2**	**–**	**4.4**	**–2.3**	**0.3**	**–1.1**	**–1.2**

		Cumulative depreciation, amortisation and write-downs/fair values					*Carrying amounts*	
	As of 31.12.2014	*As of 01.01.2014*	*Additions from consolidated companies*	*Additions*	*Disposals*	**As of 31.12.2014**	**As of 31.12.2014**	*As of 31.12.2013*
	111.2	**–40.0**	**–2.0**	**–6.9**	**2.3**	**–46.6**	**64.6**	**66.7**
	26.2	–2.5	–0.3	–0.6	–	–3.4	22.8	25.7
	36.0	–18.0	–	–2.4	0.2	–20.2	15.8	17.9
	9.6	–7.8	–0.6	–0.5	0.7	–8.2	1.4	1.4
	39.4	–11.7	–1.1	–3.4	1.4	–14.8	24.6	21.7
	74.6	**–8.3**	**–0.3**	**–1.6**	**0.4**	**–9.8**	**64.8**	**4.3**
	13.0	–8.3	–0.3	–1.6	0.4	–9.8	3.2	4.3
	61.6	–	–	–	–	–	61.6	–
	185.8	**–48.3**	**–2.3**	**–8.5**	**2.7**	**–56.4**	**129.4**	**71.0**

		Cumulative depreciation, amortisation and write-downs/fair values					*Carrying amounts*	
	As of 31.12.2013	*As of 01.01.2013*	*Additions from consolidated companies*	*Additions*	*Disposals*	**As of 31.12.2013**	**As of 31.12.2013**	*As of 31.12.2012*
	106.7	**–34.4**	**–**	**–7.0**	**1.4**	**–40.0**	**66.7**	**72.3**
	28.2	–1.7	–	–0.8	–	–2.5	25.7	28.7
	35.9	–15.9	–	–2.3	0.2	–18.0	17.9	18.5
	9.2	–7.8	–	–0.5	0.5	–7.8	1.4	1.7
	33.4	–9.0	–	–3.4	0.7	–11.7	21.7	23.4
	12.6	**–6.6**	**–**	**–1.7**	**–**	**–8.3**	**4.3**	**5.9**
	119.3	**–41.0**	**–**	**–8.7**	**1.4**	**–48.3**	**71.0**	**78.2**

CONSOLIDATED STATEMENT OF CHANGES IN PROVISIONS / ANNEX II

T 140 – Consolidated statement of changes in provisions 2014

€ million	*As of 01.01.2014*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification*	
Staff provisions						
Staff provisions	1.7	–	–0.7	–0.1	–	
Other provisions	**28.9**	**0.1**	**–4.7**	**–2.5**	**–0.2**	
Provisions of lease properties	2.0	–	–0.3	–	–	
Construction book provisions	5.4	–	–1.4	–0.7	–	
Litigations risks	3.9	–	–0.3	–0.4	–	
Other provisions	17.6	0.1	–2.7	–1.4	–0.2	
TOTAL	**30.6**	**0.1**	**–5.4**	**–2.6**	**–0.2**	

T 141 – Consolidated statement of changes in provisions 2013

€ million	*As of 01.01.2013*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification to assets held for sale*	
Staff provisions						
Staff provisions	2.0	–	–0.9	–	–	
Other provisions	**30.2**	**–**	**–8.8**	**–4.0**	**–**	
Provisions of lease properties	2.4	–	–0.3	–	–	
Construction book provisions	11.0	–	–4.6	–2.5	–	
Litigations risks	5.3	–	–1.2	–1.3	–	
Other provisions	11.5	–	–2.7	–0.2	–	
TOTAL	**32.2**	**–**	**–9.7**	**–4.0**	**–**	

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2014**	*Non-current*	*Current*
	0.9	–	–	1.8	0.9	0.9
	8.1	**0.6**	**–**	**30.3**	**13.7**	**16.7**
	0.1	0.1	–	1.9	1.2	0.7
	1.4	–	–	4.7	1.6	3.1
	1.2	–	–	4.4	1.6	2.8
	5.4	0.5	–	19.3	9.3	10.0
	9.0	**0.6**	**–**	**32.1**	**14.6**	**17.5**

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2013**	*Non-current*	*Current*
	0.6	–	–	1.7	0.9	0.8
	11.5	**0.3**	**–0.3**	**28.9**	**11.7**	**17.2**
	–	–	–0.1	2.0	1.0	1.0
	1.3	0.2	–	5.4	1.7	3.7
	1.1	–	–	3.9	0.3	3.6
	9.1	0.1	–0.2	17.6	8.7	8.9
	12.1	**0.3**	**–0.3**	**30.6**	**12.6**	**18.0**

OVERVIEW OF VOTING RIGHT NOTIFICATIONS / ANNEX III

T142 – Overview of voting rights pursuant to Section 21 para. 1 WpHG

Person/ Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	*Threshold crossed or reached in %*	*Total voting rights*	*Total voting rights in %*	
CBRE Clarion Securities, LLC	Radnor	USA	23.01.14	Exceeding threshold	23.01.14	5	2,835,200	5.35	
The Goldman Sachs Group, Inc.	Wilmington, Delaware	USA	30.01.14	Falling below threshold	27.01.14	3, 5, 10, 15, 20, 25, 30	214,826	0.41	
Goldman, Sachs & Co.	New York, NY	USA	30.01.14	Falling below threshold	27.01.14	3, 5, 10, 15, 20, 25, 30	214,826	0.41	
GS LEG Investors (Euro) Company	George Town	Cayman Islands	30.01.14	Falling below threshold	27.01.14	3, 5, 10, 15, 20, 25, 30	214,826	0.41	
Restio B.V.	Amsterdam	The Nether-lands	30.01.14	Falling below threshold	27.01.14	3, 5, 10, 15, 20, 25, 30	214,826	0.41	
Saturea B.V.	Amsterdam	The Nether-lands	30.01.14	Falling below threshold	27.01.14	3, 5, 10, 15, 20, 25, 30	214,826	0.41	
Ruffer LLP	London	United Kingdom	27.01.14	Exceeding threshold	27.01.14	3	2,277,859	4.30	
Sun Life Financial Inc.	Toronto	Canada	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Sun Life Global Investments Inc.	Toronto	Canada	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.	Wellesley Hills	USA	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Sun Life Financial (U.S.) Holdings, Inc.	Wellesley Hills	USA	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Sun Life Financial (U.S.) Investments LLC	Wellesley Hills	USA	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Sun Life of Canada (U.S.) Financial Services Holdings, Inc.	Boston	USA	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
Massachusetts Financial Services Company (MFS)	Boston	USA	29.01.14	Exceeding threshold	27.01.14	5	2,852,903	5.39	
MFS International Value Fund	Boston	USA	10.06.14	Exceeding threshold	06.06.14	3	1,599,453	3.02	
Perry Luxco RE S.à r.l.	Luxembourg	Luxembourg	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Partners L.P.	Wilmington, Delaware	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Partners International Master Inc.	Road Town, Tortola	British Virgin Islands	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Private Opportunities Off-shore Fund (Cayman) GP, L.L.C.	Wilmington, Delaware	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	

	Attribution pursuant to Section 22 WpHG							
	Name(s) of controlled undertaking(s) holding 3% or more	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Name of shareholder(s) holding directly 3% voting rights or more which are attributed to the notifier*
	–	No. 6	2,835,200	5.35	–	–	–	–
	–	No. 1	214,826	0.41	–	–	–	–
	–	No. 1	214,826	0.41	–	–	–	–
	–	No. 1	214,826	0.41	–	–	–	–
	–	No. 1	214,826	0.41	–	–	–	–
	–	–	–	–	–	–	–	–
	–	No. 6	2,277,859	4.30	–	–	–	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	2,852,903	5.39	–
	–	No. 6	2,475,231	4.67	No. 6, in connection with Section 22 para. 1 sentence 2	377,672	0.71	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Private Opportunities Offshore Fund, L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–

Overview of voting rights pursuant to Section 21 para. 1 WpHG

Person/ Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	*Threshold crossed or reached in %*	*Total voting rights*	*Total voting rights in %*	
Perry Corp.	New York, NY	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Luxco S.à r.l.	Luxembourg	Luxembourg	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Global Holdings, L.L.C.	Wilmington, Delaware	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Mr. Richard C. Perry		USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Private Opportunities Fund GP, L.L.C.	Wilmington, Delaware	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Private Opportunities Offshore Fund, L.P.	George Town, Grand Cayman	Cayman Islands	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Private Opportunities Fund, L.P.	Wilmington, Delaware	USA	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Perry Partners International, Inc.	Road Town, Tortola	British Virgin Islands	14.10.14	Falling below threshold	15.10.14	3, 5	1,711,902	2.999	
Deutsche Bank	Frankfurt	Germany	20.10.14	Falling below threshold	15.10.14	3, 5	0	0.00	
Invesco Limited	Hamilton	Bermuda	24.11.14	Falling below threshold	20.11.14	3	1,700,184	2.98	
BlackRock, Inc.	New York, NY	USA	27.08.14	Falling below threshold	25.08.14	15	7,937,612	14.99	
BlackRock Holdco 2, Inc.	Wilmington, Delaware	USA	26.08.14	Falling below threshold	22.08.14	15	7,925,639	14.96	
BlackRock Financial Management, Inc.	New York, NY	USA	26.08.14	Falling below threshold	22.08.14	15	7,925,639	14.96	

	Attribution pursuant to Section 22 WpHG							
	Name(s) of controlled undertaking(s) holding 3% or more	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Name of shareholder(s) holding directly 3% voting rights or more which are attributed to the notifier*
	Perry Partners L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Partners International, Inc.; Perry Partners International Master Inc.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Private Opportunities Fund GP, L.L.C.; Perry Private Opportunities Fund, L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Private Opportunities Offshore Fund (Cayman) GP, L.L.C.; Perry Private Opportunities Offshore Fund, L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1.711.902	2,999	–	–	–	–
	Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Corp.; Perry Partners L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Corp.; Perry Partners International, Inc.; Perry Partners International Master Inc.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Corp.; Perry Private Opportunities Fund GP, L.L.C.; Perry Private Opportunities Fund, L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l. Perry Corp.; Perry Private Opportunities Offshore Fund (Cayman) GP, L.L.C.; Perry Private Opportunities Offshore Fund, L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Private Opportunities Fund L.P.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	Perry Partners International Master Inc.; Perry Global Holdings, L.L.C.; Perry Luxco S.à r.l.; Perry Luxco RE S.à r.l.	No. 1	1,711,902	2.999	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	1,700,184	2.98	–
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	7,937,612	14.99	BlackRock Global Funds[1]
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	7,925,639	14.96	BlackRock Global Funds[2]
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	7,925,639	14.96	BlackRock Global Funds[3]

Overview of voting rights pursuant to Section 21 para. 1 WpHG

Person/ Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	*Threshold crossed or reached in %*	*Total voting rights*	*Total voting rights in %*	
BlackRock Advisors Holdings, Inc.	New York, NY	USA	10.12.14	Falling below threshold	08.12.14	10	5,688,778	9.97	
BlackRock International Holdings, Inc.	New York, NY	USA	10.12.14	Falling below threshold	08.12.14	10	5,688,778	9.97	
BR Jersey International Holdings L.P.	St. Helier, Jersey	Channel Islands	10.12.14	Falling below threshold	08.12.14	10	5,688,778	9.97	
BlackRock Group Limited	London	United Kingdom	09.12.14	Falling below threshold	05.12.14	10	5,683,999	9.96	
BlackRock Luxembourg Holdco S.à r.l.	Senningerberg	Luxembourg	21.08.14	Falling below threshold	19.08.14	10	5,277,883	9.97	
BLACKROCK (Luxembourg) S.A.	Senningerberg	Luxembourg	29.12.14	Falling below threshold	23.12.14	5	2,719,786	4.77	
BlackRock Investment Management (UK) Limited	London	United Kingdom	28.07.14	Falling below threshold	23.07.14	3	1,588,388	2.99	
BlackRock Global Funds	Luxembourg	Luxembourg	11.12.14	Falling below threshold	09.12.14	5	2,842,016	4.98	

[1] In addition, BlackRock, Inc. notified voting rights of 12.70 % (incl. attribution) on 25 September 2014.
[2] In addition, BlackRock Holdco 2, Inc. notified voting rights of 12.63 % (incl. attribution) on 25 September 2014.
[3] In addition, BlackRock Financial Management, Inc. notified voting rights of 12.62 % (incl. attribution) on 25 September 2014.
[4] The amount stated does not necessarily equal the sum of the detailed attributed holdings. This results from voting rights having multiple attributions within the BlackRock group structure.
[5] In addition, BlackRock Luxembourg Holdco S.à r.l. notified voting rights of 8.23 % (incl. attribution) on 25 September 2014.
[6] In addition, BlackRock Investment Management (UK) Limited notified voting rights of 8.28 % (incl. attribution) on 25 September 2014.

T143 – Overview of voting rights pursuant to Section 25 WpHG

Person/ Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	
The Goldman Sachs Group, Inc.	Wilmington, Delaware	USA	30.01.14	Falling below threshold	27.01.14	
Deutsche Bank AG	Frankfurt	Germany	20.10.14	Falling below threshold	15.10.14	
BlackRock Global Funds	Luxembourg	Luxembourg	11.11.14	Falling below threshold	20.10.14	
BlackRock, Inc.	New York, NY	USA	05.12.14	Falling below threshold	03.12.14	
BlackRock Financial Management, Inc.	New York, NY	USA	05.12.14	Falling below threshold	03.12.14	
BlackRock Holdco 2, Inc.	Wilmington, Delaware	USA	05.12.14	Falling below threshold	03.12.14	

	Attribution pursuant to Section 22 WpHG							
	Name(s) of controlled undertaking(s) holding 3% or more	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Attribution pursuant to para. 1 sent. 1*	*Amount of voting rights*	*Amount of voting rights in %*	*Name of shareholder(s) holding directly 3% voting rights or more which are attributed to the notifier*
	–	No. 1	575,612	1.01	No. 6, in connection with Section 22 para. 1 sentence 2	5,143,441	9.01	BlackRock Global Funds[4]
	–	No. 1	575,612	1.01	No. 6, in connection with Section 22 para. 1 sentence 2	5,143,441	9.01	BlackRock Global Funds[4]
	–	No. 1	575,612	1.01	No. 6, in connection with Section 22 para. 1 sentence 2	5,143,441	9.01	BlackRock Global Funds[4]
	–	No. 1	540,074	0.95	No. 6, in connection with Section 22 para. 1 sentence 2	5,177,449	9.07	BlackRock Global Funds[4]
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	5,277,883	9.97	BlackRock Global Funds[5]
	–	No. 6	2,719,786	4.77	–	–	–	BlackRock Global Funds
	–	–	–	–	No. 6, in connection with Section 22 para. 1 sentence 2	1,588,388	2.99	–[6]
	–	–	–	–	–	–	–	–

	Threshold crossed or reached in %	*Voting rights subject to notification*	*Financial / other instruments purs. to Section 25 WpHG*	*Voting rights purs. to Section 21, 22 WpHG*	*Chain of controlled undertakings*
	5, 10, 15, 20, 25, 30	0% (0 voting rights)	0% (0 voting rights)	0.41% (214,826 voting rights)	–
	5	0% (0 voting rights)	0% (0 voting rights)	0% (0 voting rights)	–
	5	0% (0 voting rights)	0% (0 voting rights)	5.77% (3,292,971 voting rights)	–
	5, 10	0% (0 voting rights)	0% (0 voting rights)	11.84% (6,756,850 voting rights)	–
	5, 10	0% (0 voting rights)	0% (0 voting rights)	11.84% (6,756,850 voting rights)	–
	5, 10	0% (0 voting rights)	0% (0 voting rights)	11.84% (6,756,850 voting rights)	–

T144 – Overview of voting rights pursuant to Section 25a WpHG

Person/ Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	
Lansdowne Developed Markets Master Fund Limited	George Town	Cayman Islands	17.10.14	Exceeding threshold	13.10.14	
Lansdowne Developed Markets Fund Limited	George Town	Cayman Islands	17.10.14	Exceeding threshold	13.10.14	
Deutsche Bank AG	Frankfurt	Germany	20.10.14	Falling below threshold	15.10.14	
BlackRock, Inc.	New York, NY	USA	13.01.15	Exceeding threshold	09.01.15	
BlackRock Holdco 2, Inc.	Wilmington, Delaware	USA	13.01.15	Exceeding threshold	09.01.15	
BlackRock Financial Management, Inc.	New York, NY	USA	13.01.15	Exceeding threshold	09.01.15	

Person/ Company subject to notification	*Threshold crossed or reached in %*	*Voting rights subject to notification*	*Financial / other instruments purs. to Section 25a WpHG*	*Financial / other instruments purs. to Section 25 WpHG*	*Voting rights purs. to Section 21, 22 WpHG*	*Chain of controlled under-takings*	*Description of financial / other instrument*	
Lansdowne Developed Markets Master Fund Limited	5	7.2729 % (4,150,154 voting rights)	6.80 % (3,880,176 voting rights) thereof held indirectly: 0 %	0% (0 voting rights)	0.47 % (269,978 voting rights)	–	–	
Lansdowne Developed Markets Fund Limited	5	7.2729 % (4,150,154 voting rights)	6.80 % (3,880,176 voting rights) thereof held indirectly: 6.80 % (3,880,176 voting rights)	0% (0 voting rights)	0.47 % (269,978 voting rights)	Lansdowne Developed Markets Master Fund Limited	–	
Deutsche Bank AG	5	0.24% (138,700 voting rights)	0.24 % (138,700 voting rights)	0% (0 voting rights)	0% (0 voting rights)	–	–	
BlackRock, Inc.	5, 10	11.12 % (6,342,630 voting rights)	0.0002 % (93 voting rights) thereof held indirectly: 0.0002 % (93 voting rights)	0% (0 voting rights)	11.11 % (6,342,537 voting rights)	–	Contract for Difference	
BlackRock Holdco 2, Inc.	5, 10	11.12 % (6,342,630 voting rights)	0.0002 % (93 voting rights) thereof held indirectly: 0.0002 % (93 voting rights)	0% (0 voting rights)	11.11 % (6,342,537 voting rights)	–	Contract for Difference	
BlackRock Financial Management, Inc.	5, 10	11.11 % (6,340,243 voting rights)	0.0002% (93 voting rights) thereof held indirectly: 0.0002 % (93 voting rights)	0% (0 voting rights)	11.11 % (6,340,150 voting rights)	–	Contract for Difference	

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the LEG Immobilien AG, Düsseldorf, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1. January to 31. December 2014. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (*"Handelsgesetzbuch"*: German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, 19 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

GREGORY HARTMAN
Wirtschaftsprüfer

PPA. MARTIN FLÜR
Wirtschaftsprüfer

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, 19 March 2015

LEG Immobilien AG, Dusseldorf

The Management Board

THOMAS HEGEL

ECKHARD SCHULTZ

HOLGER HENTSCHEL

5

FIVE

FURTHER INFORMATION

TABLES AND FIGURES

Table overview

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Figure overview

TO THE SHAREHOLDERS

MANAGEMENT REPORT

GLOSSARY

CAPEX	**Cap**ital **Ex**penditure Capitalised cost of modernisation and maintenance work
EBIT	**E**arnings **b**efore **I**nterest and **T**ax Operating earnings Consolidated net income before net finance costs and taxes
EBITDA	**E**arnings **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
EPRA	**E**uropean **P**ublic **R**eal Estate **A**ssociation
EPRA – NAV	**N**et **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, property held for disposal, derivatives or subsidised loans.
FFO I	**F**unds **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	**F**unds **f**rom **O**perations **II** FFO I plus net income from the disposal of investment properties
AFFO	**A**djusted **FFO I** FFO I adjusted for investments for capitalised capex measures
LTV	**L**oan-**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.
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

THE MANAGEMENT BOARD

The members of the Management Board are as follows:

THOMAS HEGEL
Chief Executive Officer (CEO)
Corporate Development, Acquisitions
Corporate Communications
Executive and Supervisory Board Office
Internal Audit and Compliance, Central Services
Human Resources, Legal, IT

ECKHARD SCHULTZ
Chief Financial Officer (CFO)
Finance and Treasury, Corporate Finance
Controlling & Risk Management
Accounting, Tax, Investor Relations
Portfolio Management

HOLGER HENTSCHEL
Chief Operating Officer (COO)
Asset and Property Management, Procurement/Technology
Rental and Operating Cost Management
Receivables Management, Commercial Management
District Management, Integration

FINANCIAL CALENDAR 2015

LEG FINANCIAL CALENDAR 2015

Publication of the 2014 Annual Report	**25 March**
Publication of the Interim Report as of 31 March 2015	**13 May**
Annual General Meeting, Dusseldorf	**24 June**
Publication of the Interim Report as of 30 June 2015	**14 August**
Publication of the Interim Report as of 30 September 2015	**12 November**

CONTACT & LEGAL NOTICE

PUBLISHER
LEG Immobilien AG
Hans-Böckler-Straße 38
40476 Dusseldorf, Germany
Tel. +49 (0) 2 11 45 68 - 0
Fax +49 (0) 2 11 45 68 - 261
info@leg-nrw.de
www.leg-nrw.de

CONTACT
Investor Relations
Burkhard Sawazki / Karin Widenmann /
Katharina Golke
Tel. +49 (0) 2 11 45 68 - 400
LEG-Investor.Relations@leg-nrw.de

VISUAL CONCEPT AND DESIGN
hw.design, Munich

PHOTOGRAPHY
Andreas Teichmann, Essen
(Management Board, Supervisory Board,
tenants' portraits)
Heleen Berkemeyer, Dusseldorf
Max Hampel, Dusseldorf
LEG-picture database

PRINTED BY
Media Cologne, Huerth

PRINT RUN
300 printed copies
The annual report is also available in German.
In case of doubt, the German version takes
precedence.

LEG Immobilien AG
Hans-Böckler-Straße 38
40476 Dusseldorf, Germany
Tel. +49 (0) 2 11 45 68 - 0
Fax +49 (0) 2 11 45 68 - 261
info@leg-nrw.de
www.leg-nrw.de