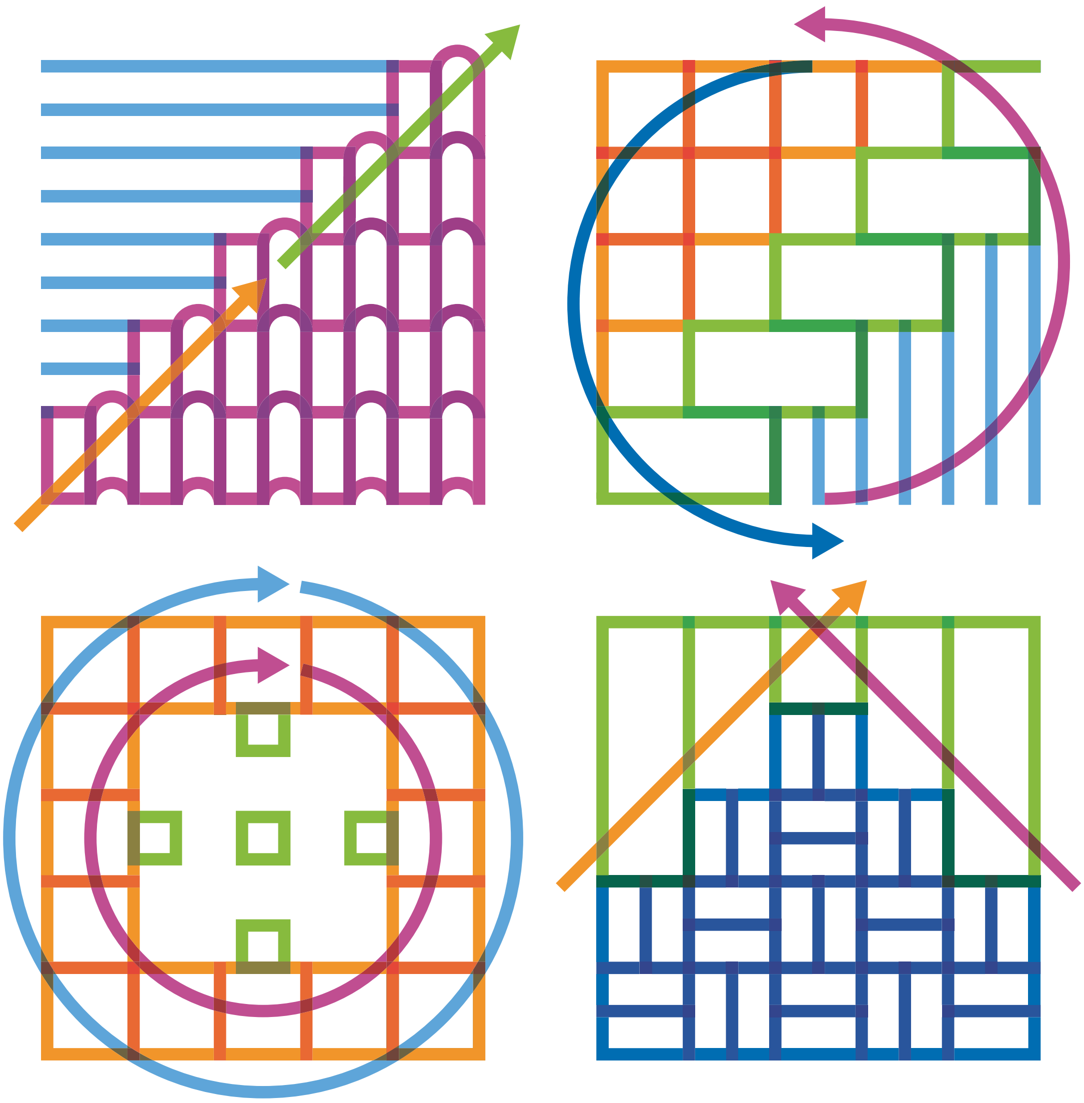
Keep growing.



ANNUAL REPORT 2016

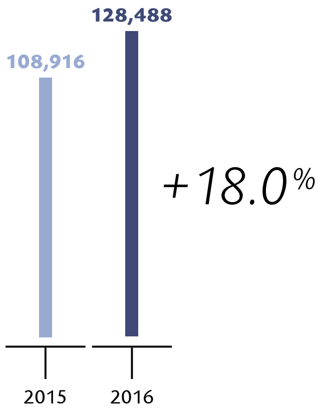
KEY FACTS 2016

T1 – Key facts

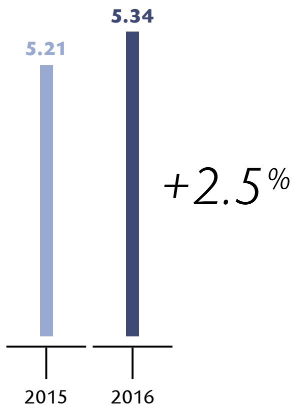
		2016	2015	+/– %/bp
RESULTS OF OPERATIONS				
Rental income	€ million	**511.7**	436.1	17.3
Net rental and lease income	€ million	**373.1**	320.5	16.4
EBITDA	€ million	**947.3**	561.0	68.9
EBITDA adjusted	€ million	**355.7**	293.7	21.1
EBT	€ million	**779.6**	299.7	160.1
Net profit or loss for the period	€ million	**579.2**	217.7	166.1
FFO I	€ million	**268.3**	206.0	30.2
FFO I per share	€	**4.26**	3.53	20.7
FFO II	€ million	**292.3**	209.6	39.5
FFO II per share	€	**4.64**	3.60	28.9
AFFO	€ million	**190.8**	146.2	30.5
AFFO per share	€	**3.03**	2.51	20.7
PORTFOLIO		**31.12.2016**	31.12.2015	+/– %/bp
Number residential units		**128,488**	108,916	18.0
In-place rent	€/sqm	**5.28**	5.21	1.4
In-place rent (l-f-l)	€/sqm	**5.34**	5.21	2.5
EPRA vacancy rate	%	**3.3**	2.6	75 bp
EPRA vacancy rate (l-f-l)	%	**2.9**	2.5	36 bp
STATEMENT OF FINANCIAL POSITION		**31.12.2016**	31.12.2015	+/– %/bp
Investment property	€ million	**7,954.9**	6,398.5	24.3
Cash and cash equivalents	€ million	**166.7**	252.8	–34.1
Equity	€ million	**3,436.7**	2,985.0	15.1
Total financial liabilities	€ million	**3,774.3**	3,241.6	16.4
Current financial liabilities	€ million	**552.0**	496.0	11.3
LTV	%	**44.9**	44.2	70 bp
Equity ratio	%	**40.7**	41.5	–80 bp
EPRA NAV, diluted	€ million	**4,641.0**	4,027.1	15.2
EPRA NAV per share, diluted	€	**67.79**	59.31	14.3

bp = basis points

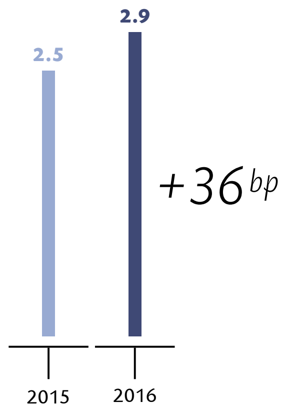
Key facts 2016



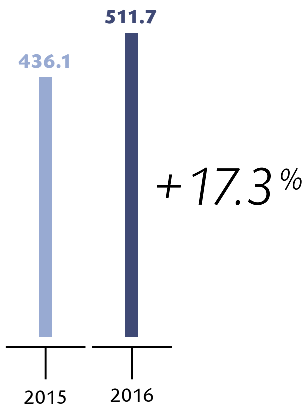
Number residential units



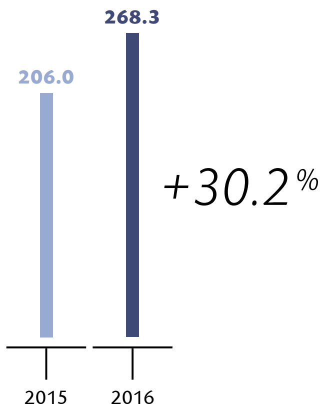
In-place rent on 31.12. (like-for-like) in €/sqm



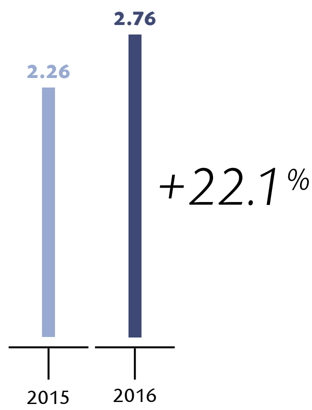
EPRA Vacancy rate on 31.12. (like-for-like) in %



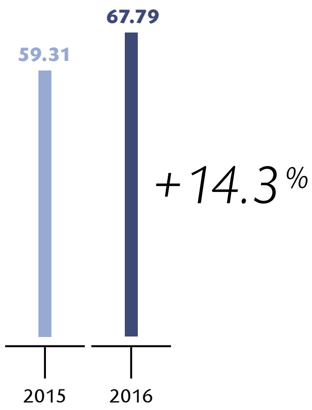
Rental income in € million



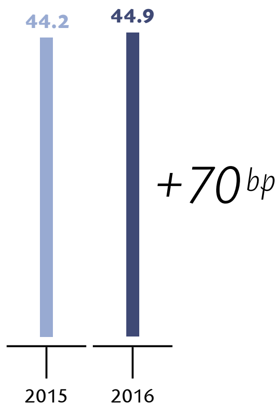
FFO I in € million



Dividend per share in €



EPRA NAV per share in €, diluted

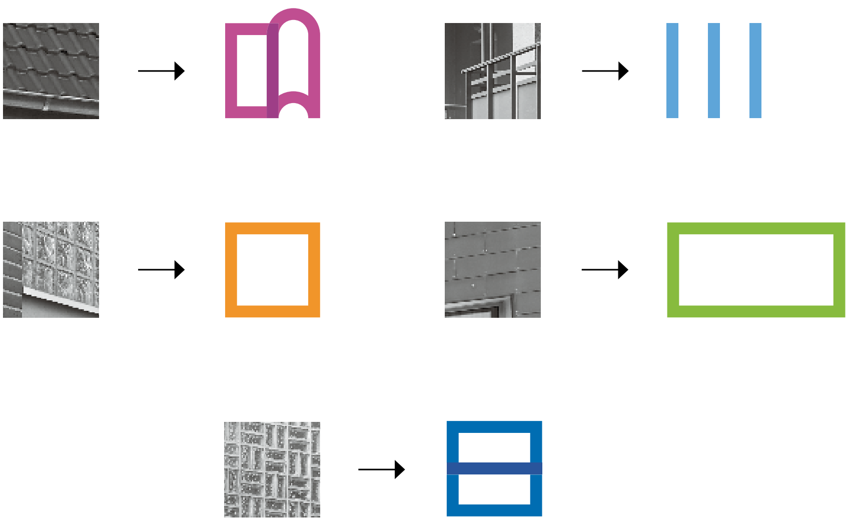


LTV in %

bp = basis points

To us, *keep growing* means taking continuous steps on the pathway of success. That is why we insist on quality down to the finest detail – not only with our housing. We are constantly optimising our financial basis, from the smallest entity to the big picture. We focus on North Rhine-Westphalia (NRW), are well positioned, provide added value and invest in the future. These facets are what make us who we are, and lay the foundation of our successful growth.

see Keep growing from page 14



CONTENTS

HOLGER HENTSCHEL
Chief Operating Officer

THOMAS HEGEL
Chief Executive Officer

ECKHARD SCHULTZ
Chief Financial Officer

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
dear Ladies and Gentlemen,

LEG and its employees can look back on another successful financial year. In 2016, we again managed to continue growing and to create sustainable value for our stakeholders with the aid of our focused business model.

Our latest annual report is titled "Keep growing" – underscoring LEG's distinguishing feature: its aspiration to progressively optimise itself in all areas and thus to generate continuous and sustainable growth. After external growth was prioritised in previous years with the purchase of over 40,000 residential units since the IPO, we are now pushing the pace of organic growth. We have taken the significant measure of initiating an additional three-year modernisation programme worth EUR 200 million, which we will implement from mid-2017 on.

As planned, we further increased rent per square metre on a like-for-like basis by 2.5% in the 2016 financial year. Our successful management approach is making itself felt in the free-financed segment in particular, where like-for-like rent grew by as much as 3.4%. We achieved these figures on the basis of targeted investments averaging EUR 18 per square metre. At the same time, we kept the EPRA vacancy rate at a low level of 2.9% (on a like-for-like basis) despite temporary negative effects from a reorganisation of our operating units.

An important requirement for sustainable value generation in the housing industry is high capital discipline. For LEG, this is crucial both for investing in the portfolio and for implementing the acquisition strategy. In an environment that has become challenging due to increasing asking prices, we adhered to our strict acquisition criteria and limited ourselves to acquiring around 2,000 residential units with attractive returns in the 2016 financial year. At the same time, we instead used the situation on the transaction market last year to dispense with residential units not belonging to the company's long-term core portfolio. In total, we successfully sold around 4,000 apartments with an attractive premium of around 13% on the carrying amount.

In light of the persistently low interest rates, we further optimised our financing. For example, with the early refinancing of loans totalling around EUR 300 million in the first quarter of the last financial year, we further reduced our already very low financing costs. We also initiated the repayment of subsidised loans of EUR 200 million.

The positive effects of concluded acquisitions, the organic rental growth, a further increase in operating margins and a further reduction in interest expenses also resulted in a significant increase in FFO I– the key indicator for our financial performance. Overall, FFO increased by 30.2% to EUR 268.3 million and by 20.7% to EUR 4.26 per share. On the basis of our dividend policy, which provides for a pay-out ratio of 65% of FFO, the Management Board and Supervisory Board will propose a dividend of EUR 2.76 per share to the Annual General Meeting in May 2017. This is a 22% increase on the dividend of the previous year.

The regular revaluation of the LEG portfolio at the end of 2016 also confirmed the property portfolio's very positive performance, which is ultimately reflected in a substantial increase in shareholders' net asset value (NAV). NAV per share rose by 14.0% year and year and reached EUR 67.15 (not including goodwill). A strong balance sheet, reflected in a consistently solid loan-to-value ratio (LTV) of 44.9%, remains a key pillar of the business model.

As another tool of lasting growth, LEG built on its value-added services for tenants. As well as the successful launch of the integrated energy management company EnergieServicePlus, which brings tenants affordable heating, LEG founded the new joint venture TechnikServicePlus with B & O, which until then was purely its service provider. Since the start of the year, LEG has thus been providing tradesman services and managing small repairs management for its tenants itself.

Our aim is to continue creating sustainable value growth in the years to come. In order to achieve this, we will continuously expand on our existing strengths, but also set new priorities. We will further optimise the structure of our residential portfolio, including through higher investment, and continuously increase our efficiency. We see lots of potential in value-added services for our tenants and will work on developing new services with all our know-how. Acquisitions will remain an integral element of the business model. With our strong market position in our core regions, we are determined to continue taking the opportunities for a further value-adding expansion of the platform in the future.

We are therefore looking forward to the current financial year with optimism. For 2017, we anticipate a further dynamic increase in FFO I to a value ranging between EUR 288 million and EUR 293 million. For 2018, we expect additional growth by a high-single-digit percentage to between EUR 310 million and EUR 316 million. This also shows that we want to continue increasing our high operating profitability. The key indicator for this is the development of the EBITDA margin. After around 70% in the year under review, we expect an increase to 72% in 2017 and 73% in the 2018 financial year.

In order to achieve these goals, we will have to drive the necessary measures and changes forward together in all areas of LEG. We will continue to count on our qualified and highly motivated employees. Their will to make LEG even more profitable while satisfying the needs of over 350,000 people who live in our homes is the key to our lasting success. We thank them wholeheartedly for this commitment and assure that we will continue working on further increasing our employees' satisfaction.

As you can see, dear shareholders, dear ladies and gentlemen, we are working to continuously enhance LEG and to create value. We thank you for the trust you have placed in us – and promise that we will not let up in our efforts for your benefit and for the good of our tenants.

THOMAS HEGEL
Chief Executive Officer

ECKHARD SCHULTZ
Chief Financial Officer

HOLGER HENTSCHEL
Chief Operating Officer

INTERVIEW WITH THE MANAGEMENT BOARD

In the 2016 financial year, LEG excelled through its focused business model. The considerable increase in profit underscores the strength of its positioning as an established NRW specialist and as market leader in an attractive metropolitan region. In addition to the successful integration of acquired portfolios, LEG further lowered financing costs, continued improving efficiency and laid the foundation for faster organic growth.

In the following interview, the LEG Immobilien AG Management Board members Thomas Hegel (CEO), Eckhard Schultz (CFO) and Holger Hentschel (COO) explain how to combine continuous growth, the expansion of value-added services, strict cost discipline, and a further boost in tenant satisfaction.

What is LEG's position after the 2016 financial year?

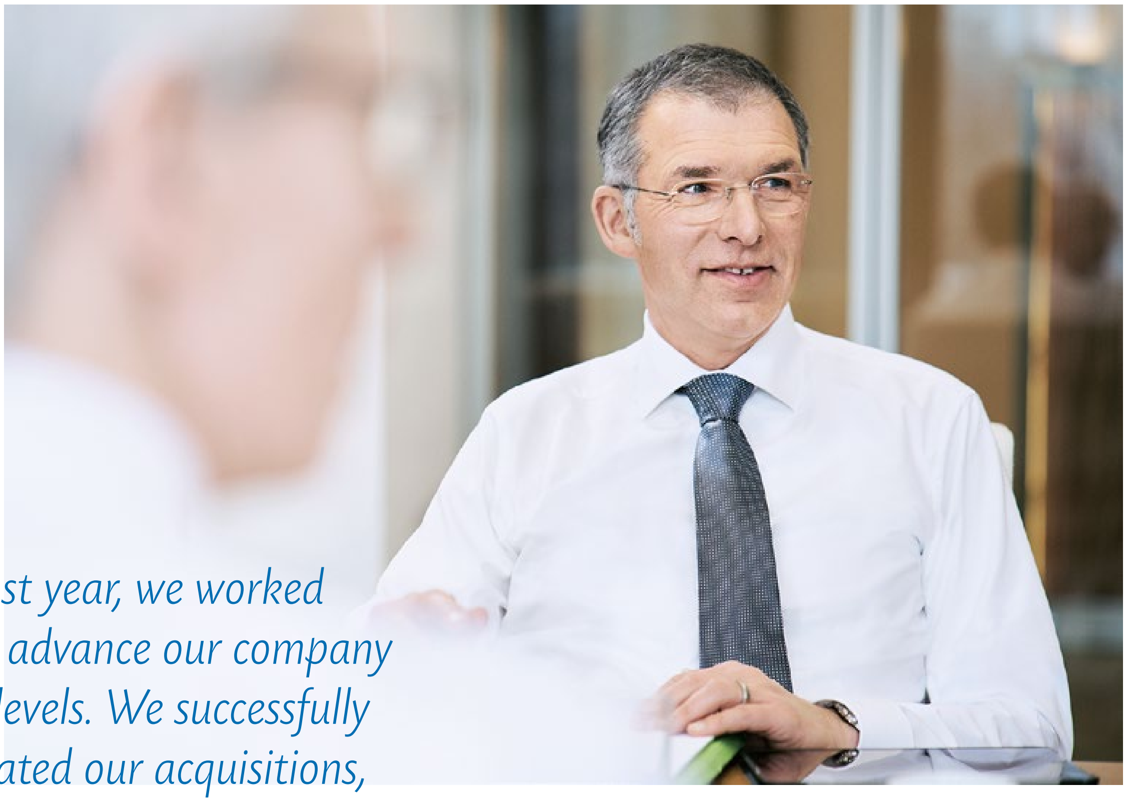
THOMAS HEGEL LEG's foundation is more stable than ever. Last year, we worked hard to advance our company at all levels. We successfully integrated our acquisitions, optimised the portfolio, further improved our financing structure and initiated numerous enhancements both internally and externally. We are breaking new ground with regard to value-added services for our tenants. This is all helping us to achieve our goal of creating continuous, valuable growth. In summary, we are very pleased with how we have successfully enhanced our seasoned business model.

Things were rather quiet at LEG last year. What kept you busy in 2016?

THOMAS HEGEL It was anything but quiet. We scrutinised our processes throughout the Group, launched organisational enhancements and consistently improved our efficiency. Although it was a bit quieter for us and on the market with regard to consolidations and portfolio transactions than in 2015, we succeeded in generally fortifying the foundation for further value growth. We adapted to the market environment and generated additional growth in large part from our own structures.

Please give an example of the organisational enhancement mentioned.

HOLGER HENTSCHEL The introduction of our "Central Customer Service" in October 2016 is the most prominent example. This reorganisation was LEG's response to feedback from tenants who wanted even better service quality. In the past, our tenants mostly put forward their concerns – be they about rent or other service issues – in tenant drop-in sessions. These drop-in sessions were very popular, so there were sometimes long waiting times and queues. Hence we introduced a single LEG telephone number and e-mail address. With the new "Central Customer Service", our tenants can now contact property specialists who in most cases can help them directly over the telephone. If not, the relevant specialist department will be brought in. In addition, tenants are still able to arrange individual face-to-face appointments with a property management team.



»Last year, we worked hard to advance our company at all levels. We successfully integrated our acquisitions, optimised the portfolio, further improved our financing structure and initiated numerous enhancements both internally and externally.«

THOMAS HEGEL
Chief Executive Officer

The reorganisation has not only changed things for your tenants; your employees have also had to adapt to the new situation. How were the changes received?

HOLGER HENTSCHEL For over 600 employees, the reorganisation meant saying farewell to business as usual. They showed that they are nevertheless fully behind the new service concept by their willingness to voluntarily accept many, sometimes drastic, changes. For example, our employees adapted to new processes and workflows, received training in cutting edge industry software and learned to make processes even more efficient. Many fields of activity have changed and expanded, they have new supervisors and colleagues and some are even working in different locations. But our employees are all real estate professionals – and their dedicated support for the reorganisation confirmed to us that we have taken the right course. They too are very familiar with the sometimes difficult competitive environment in which we must assert ourselves every day and were motivated accordingly.

THOMAS HEGEL This is something we are very proud of. Our employees are committed to taking this road with us and continually come through for our company and our customers. And we are far from being tired yet – our corporate culture is based on curiosity, innovative spirit and the desire not to rest on our laurels but to continue doing everything to make LEG even more successful.

It sounds like you still have lots of plans?

THOMAS HEGEL Indeed we do. We won't stand still. Of course, we could now rest on the improved efficiency and ultimately the further increase in profitability that we have already achieved, but that is not our way. We will continue to look closely, bring about change and create value for all our stakeholders. For example, take the additional modernisation programme that we launched last year. As a result of an intensive analysis, potential for additional investments totalling around EUR 200 million has been identified for the next three years. In parallel, we are working on a further continuous improvement of our operating margins. From mid-2017, we will thus lay the foundation for a further acceleration of organic rental growth and for further strong, dynamic profit growth.

So the focus is now on value enhancement through internal growth?

THOMAS HEGEL That would be looking at it too one-sidedly. But it is true that, after recent years of strong growth by way of property acquisitions, we are planning to more substantially promote the good development of our organic growth.

HOLGER HENTSCHEL And our current portfolio has a lot of potential to be leveraged – LEG is the rental expert in NRW. Thanks to our concentrated portfolio, we have profound knowledge of the markets, property locations and tenant needs. On this basis, we can achieve optimum rental results. These include bespoke investments and rent increases as well as the further reduction of vacancy and turnover rates.

ECKHARD SCHULTZ As our figures attest, the concentration on the NRW market provides structural economies of scale that are reflected in leading profitability. With very efficient capital expenditure when investing in the portfolio, we are expecting yet faster rental growth in a strong market environment. An expansion of service activities and expected further efficiency improvements remain important additional drivers for the further increase in operating profitability. Including support from our long-term, secured financing at low cost, we are in an excellent position to report attractive profit and dividend growth in the years to come. This does not yet include effects from the planned portfolio growth.

THOMAS HEGEL And if the market offers us attractive properties for purchase, we have the financial clout to support even major acquisitions. But not at any price. We are known for our capital discipline and our strict criteria for acquisitions – this will remain unchanged.

Good segue – are you satisfied with your acquisition record?

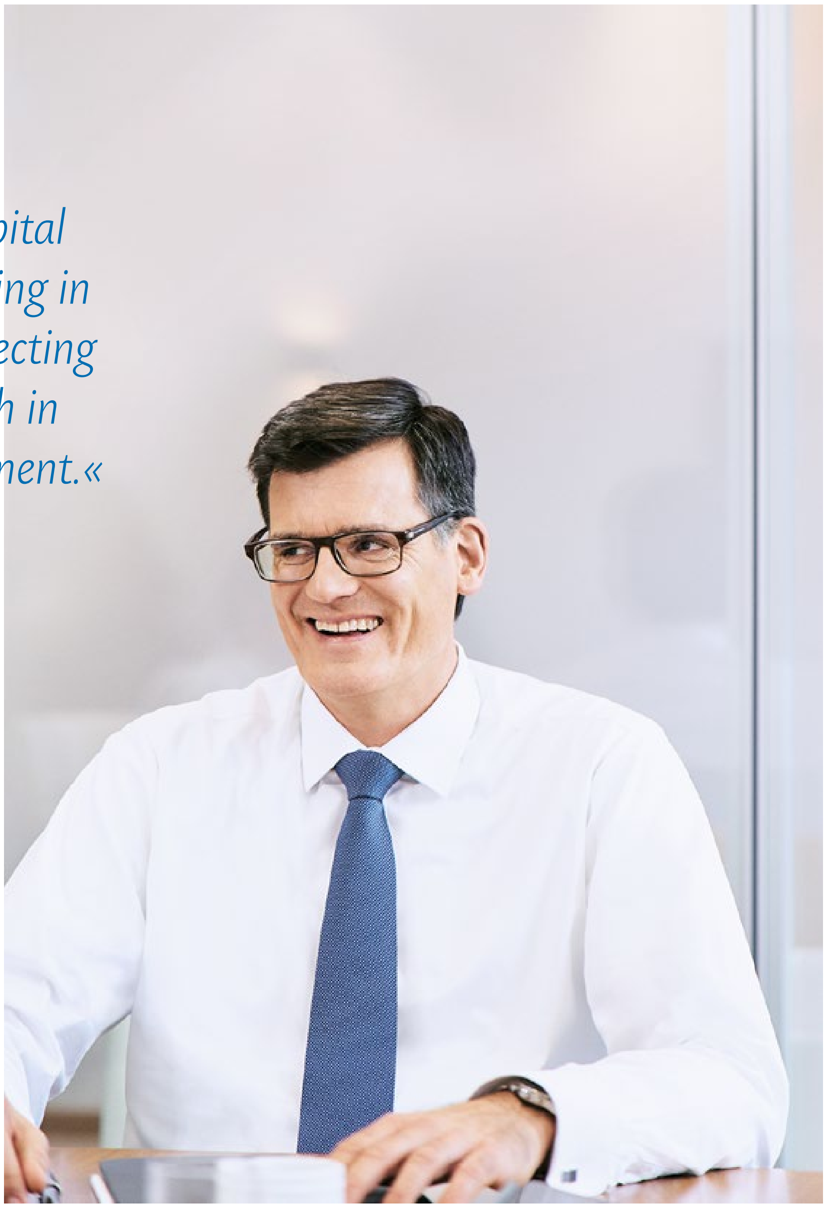
ECKHARD SCHULTZ In light of the current market environment, yes. In view of the sharp rise in asking prices, the climate in our sector deteriorated in NRW last year too. But even in this market environment, LEG acquired around 2,000 residential units with attractive returns. Since the IPO in 2013, we have therefore successfully acquired and integrated over 40,000 residential units – without neglecting our principle of capital discipline. We are now pursuing the opportunities that actually offer potential for a sustainable increase in enterprise value. And we will continue to do so in the future. We are not interested in growth for growth's sake, but in increasing the value of LEG.

What about sales?

ECKHARD SCHULTZ We have selectively sold properties not belonging to the company's long-term core portfolio at attractive conditions. Thus, we sold around 4,000 apartments with a premium on the carrying amount of around 13%. In addition to the direct, positive earnings contribution, these transactions are also evidence of the intrinsic value of the LEG portfolio.

»With very efficient capital expenditure when investing in the portfolio, we are expecting yet faster rental growth in a strong market environment.«

ECKHARD SCHULTZ
Chief Financial Officer



Back in 2015, LEG took opportunities for early refinancing. It seems this was continued in 2016.

ECKHARD SCHULTZ Absolutely. In the first four months of the current financial year, additional loans totalling around EUR 300 million were refinanced ahead of time in order to exploit the favourable situation on the financing markets. The resulting decline in interest expenses was recognised in profit or loss at EUR 3 million in 2016 and from 2017 in the full amount of around EUR 5 million. The associated costs have a payback period of only a few years.

Through the recent repayment of 35% of our subsidised loans of around EUR 200 million, we directly generated a positive measurement effect, as we can now adjust these portfolios to the market earlier. Specifically, we are talking about a significant increase of net asset value of EUR 114 million.

»We further diversified our financing structure and reduced the average financing costs to less than 2.0 % with the loans bearing an average remaining term of around ten years. «

ECKHARD SCHULTZ
Chief Financial Officer

At the end of 2016, you signed a loan agreement with the European Investment Bank (EIB). Why?

ECKHARD SCHULTZ We are very happy about the cooperation with the EIB. The loan of EUR 100 million, made possible by guarantees from the European Fund for Strategic Investments (EFSI), will be used as part of our additional modernisation programme for the partial financing of energy-efficient measures in our residential portfolio. The structure of this unsecured financing offers LEG maximum flexibility at very advantageous conditions. We can draw on the credit facility in several tranches, and it has a maturity of up to 13 years.

The diversification of sources of financing seems to be very important for LEG. Key word: corporate bond.

ECKHARD SCHULTZ The placement of our first unsecured, fixed-rate corporate bond with a nominal value of EUR 500 million at the start of 2017 is evidence that LEG has access to all major sources of financing. The high demand from investors and the ultimately attractive conditions demonstrate how well LEG is positioned on the financing markets. And for us, the advantages are obvious: we further diversified our financing structure and reduced the average financing costs to less than 2.0% with the loans bearing an average remaining term of around ten years.

LEG's growth is also assisted by the continuous development of your value-added strategy. What does your range of services look like now?

HOLGER HENTSCHEL Tenants these days have increasing demands on their homes. They want services above and beyond the mere renting of a property. In order to respond to this development, we have enhanced our business model with value-added services. For example, in early 2016 we successfully introduced our integrated energy management company Energie ServicePlus (ESP). ESP allows us to offer our tenants advantages such as inexpensive electricity and gas, various opportunities to save energy and greater use of renewable energy. At the end of last year, we founded another new company, TechnikServicePlus (TSP). This new joint venture pools the strengths of our former service provider B&O with our know-how. TSP offers LEG the opportunity to secure tradesman capacity on a market where resources are scarce and to provide small repairs services itself. Cost-saving effects thus generated have a positive impact on our profitability.

»Our employees are all real estate professionals – and their dedicated support for the reorganisation confirmed to us that we have taken the right course.«

HOLGER HENTSCHEL
Chief Operating Officer

What is the future for value-added services?

HOLGER HENTSCHEL The expansion of value-added services in our Group is a fixed element of our strategy. And the opportunities are immense: just look at the potential of advancing digitalisation. We are also taking a close look at the smart home and age-appropriate or energy-efficient living. The expansion of these offerings not only increases the satisfaction of our tenants, but also supports our steady growth.

THOMAS HEGEL The housing industry may not seem all too innovative at first glance, but that is deceiving. The potential for housing to evolve is huge. Especially as the private environment, comfort, security in one's own home – in particular in supposedly unsafe times – are always increasing in significance. In order to shape this development actively, we recently implemented our own "innovation management" organisational unit. Innovations of course need time to spread to the entire housing portfolio – but LEG's real estate professionals are working on this day in, day out.

»Our corporate culture is based on curiosity, innovative spirit and the desire not to rest on our laurels but to continue doing everything to make LEG even more successful.«

THOMAS HEGEL
Chief Executive Officer

There are two important dates coming up this year: the state election in NRW and the federal election. What role will housing policy play in this bumper election year?

THOMAS HEGEL It looks like it will play a big role. The housing industry has stepped out from under the shadow of other sectors, such as the energy industry. What it achieves and what is expected of it have become massively more important recently. Demands relating to the modernisation allocation, rent control and the introduction of qualified rent tables make an appearance in nearly every election manifesto. There is great pressure on politicians to create affordable housing – but support for the housing industry from politicians is unfortunately limited.

What do you expect from politicians in light of the high demand for affordable housing, the immigration of refugees and the demographic changes in our society?

THOMAS HEGEL In Germany, we need around 400,000 new homes every year, of which around 80,000 units of social housing and 60,000 homes in the lower price segment. Therefore, the primary political objective must be to create more affordable housing, such as by introducing a binding model building code and more flexible administrations and by designating more land for building. The promotion of serial construction, the ability to build urban housing at greater density and with more flexible mixed uses, and measures to also develop neighbourhoods outside the so-called "swarm cities" are first steps in the right direction, but are far from sufficient to cope with the challenges we are facing. I hope politicians recognise that further regulation is counter-productive and send the right signals here.

So those are the external factors – but what strategy is LEG pursuing in order to take up the best possible position for the future?

THOMAS HEGEL We are clearly counting on LEG's proven ability to continuously improve and evolve. This will continue in vastly differing areas. We will develop our residential portfolio and make further purchases if we see potential and our acquisition criteria are met. We will continue to advance the expansion of our services – in order to leverage value but also to further increase tenant satisfaction. We will not let up when it comes to improving efficiency, and we will further increase the profitability of our company. We can only face up to all these tasks with a team motivated on a sustained basis. We therefore continuously review our management principles and measures and thus directly influence the satisfaction of our employees. Our innovative spirit and constant desire to evolve also give us a crucial advantage in the so-called "war for talents" – the recruitment of the most qualified candidates in the property sector.

So there will be no standstill?

THOMAS HEGEL That would be in direct contradiction to our corporate culture. We see potential for development and improvement everywhere and all the time – and are highly motivated to take it and leverage the value it provides.

At home in NRW.

We're on familiar ground here. As a specialist in housing in NRW, we keep a close eye on this attractive market and its trends.

To us, home tastes of pumpernickel, Kölsch beer and Aachen lebkuchen. Just like North Rhine-Westphalia (NRW). Although NRW has much more to recommend it. As a housing company, we work in a particularly attractive market. The Rhine-Ruhr metropolitan region – the most densely populated federal state – is not only Germany's economic powerhouse, but also one of the 30 biggest conurbations in the world, with around 10 million inhabitants. We have around 130,000 residential units in NRW – with housing for more than 350,000 residents. Our portfolio is constantly growing, enabling us to provide as many people as possible in North Rhine-Westphalia with a safe, affordable home.

Because NRW is our home, we know the area inside out: as the market leader in North Rhine-Westphalia, we have apartments in 170 locations in the federal state, and possess extensive market knowledge as well as local expertise. We know what the market requires, and consequently, we are particularly attuned to the growing demand for affordable housing. Through our regional concentration, we can operate with great efficiency. Because we focus on our core market of NRW, there are economies of scale that make LEG profitable on a long-term basis.

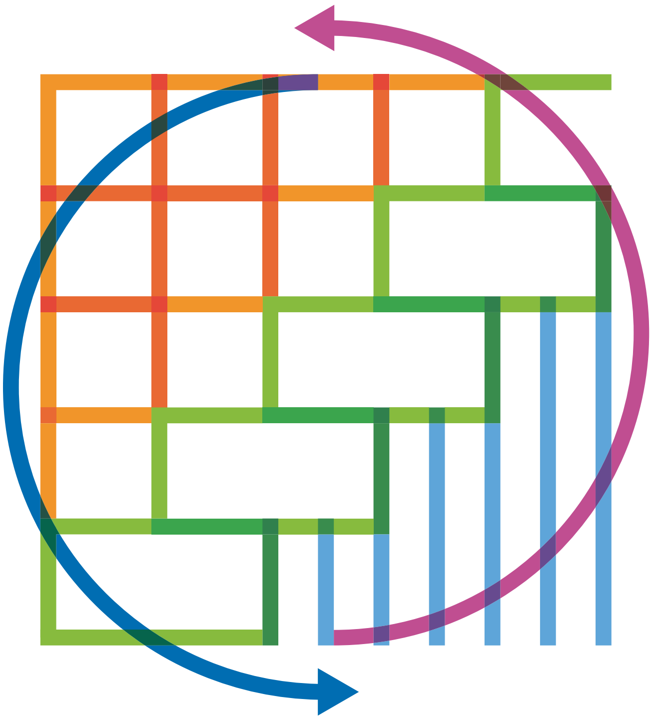
With our social commitment, we show ourselves to be a company that acts sustainably and takes social responsibility seriously. Right from the start, we have always helped municipalities with neighbourhood development and, in recent years, housing of refugees.

LEG was established in 1970

170 *locations in NRW*

350,000 *people live in LEG apartments*

Well positioned.



Actively shaping the future: we rely on digitisation – and our professional team.

To us, "keep growing" means the improvement of the current status. To this end, we are continuously optimising our processes and structures in order to maintain our outstanding position on the market. For instance, in October 2016, we carried out a realignment of our management organisation along with the introduction of a central customer service. This was our response to feedback from our tenants who wanted even better service quality.

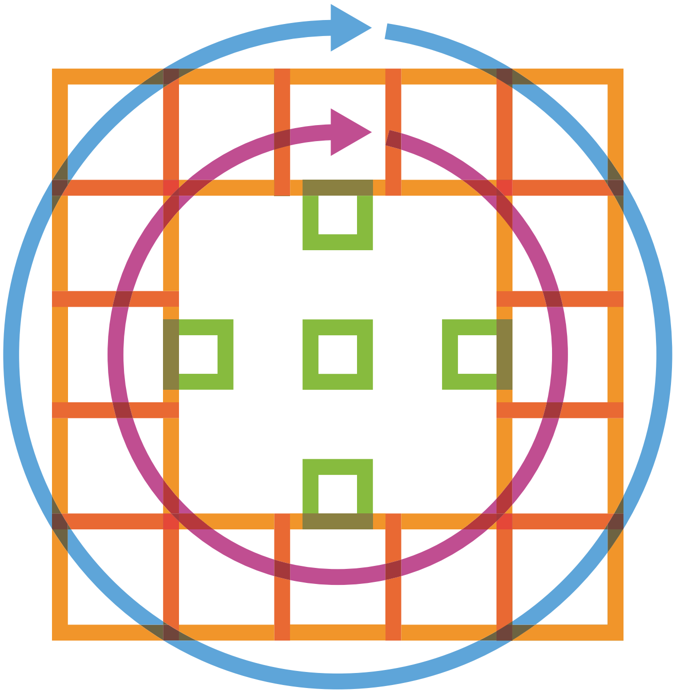
We also have our finger on the pulse when it comes to technology. We apply digitisation in all functions in order to improve processes, to reduce costs and play an active role in shaping the future. For instance, the new digital invoicing workflow ensures paperless, electronic invoice processing and approval for all LEG companies. The vast majority of our HR processes are now system-based. Digitisation of tenant records has also simplified management of rental agreements. And processes in modernisation management have also been optimised through the use of special software. After all, only those who identify the needs of the times and press ahead with targeted changes can keep growing.

We work with a motivated, committed team who give their best every single day. We provide training and seminars, regularly evaluate our management principles and enhance our management methods. With our occupational health management and measures for reconciling work and family life, we support our employees and show our appreciation for their commitment. After all, our employees are the ones who help to shape all changes and deliver success.

990 *employees work for LEG*

EUR 830 *per person spent on training in 2016*

Providing added value.



We take the long view: with our partners,
we develop attractive services that benefit everyone.

We want to be more than a housing provider for our tenants and investors, and give everything to achieve this on a daily basis. We are constantly working on attractive housing-related services that make living even more comfortable. For instance, we provide our tenants with a fast, low-cost broadband connection along with free extras such as foreign-language packages or HD channels and supply our properties with low-cost energy and heating. In doing this, we rely on collaboration with our professional partners and their many years of experience. After all, we are only strong together.

Because our tenants' expectations are constantly growing, demand for services directly and indirectly related to housing is also on the rise. Consequently, further cooperations with experienced service providers are planned for the future. Everything that creates added value for us and our customers is possible. Long-term strategic partnerships are particularly important to us here.

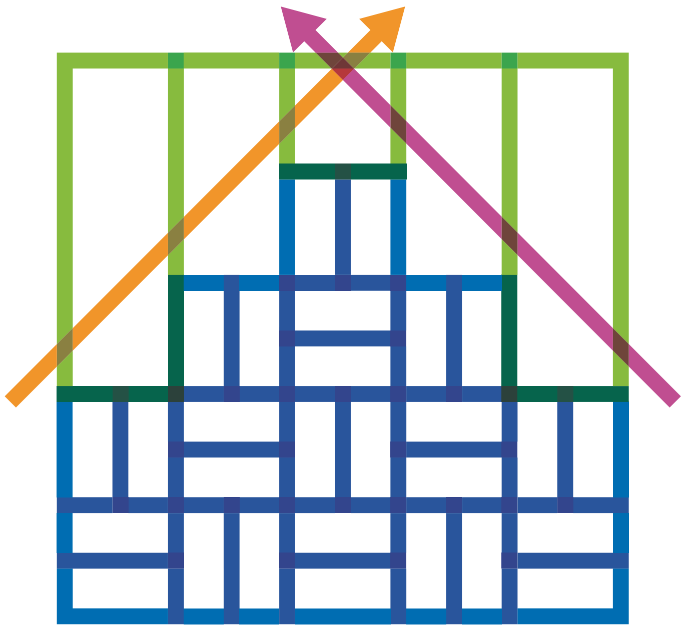
Our added-value strategy delivers advantages for tenants and investors alike. Our tenants benefit from convenient extra services from a single source, and enjoy more efficiently-managed services. Our investors benefit from the additional value created by our company that also pays of financially. We provide added value because it's worth it for our tenants and investors.

280 *in-house craftsmen for quality assurance*

3 *service areas in cooperation with specialist partners*

35 *HD channels and a foreign language package at no extra cost*

Investing in the future.



The future starts now: that's why we are already embracing extensive modernisation and long-term HR development.

We firmly believe that only continuous investment in the future can guarantee our long-term success. Therefore, we are constantly increasing the value of our company through minor and major optimisations. Ultimately, those who pay close attention to the details and fine-tune them will improve the big picture. Our next optimisation steps are already planned: we aim to invest more in energy-saving renovation of our residential portfolio and conversion of senior housing. The main regional focal points of our modernisation programme are in attractive housing markets.

Only those who know where they stand today can draw up principles for tomorrow. Consequently, to measure up to the challenging competition, we constantly monitor the economic efficiency of our company in all areas.

Long-term HR development and outstanding management expertise are particularly important to us. We want to keep on attracting qualified, committed employees. To this end, we are always investing in making LEG even more attractive as an employer, motivating our employees and creating a productive, inspiring working environment for them. Because the future starts now.

EUR 29 *average investment per square metre in 2018 and 2019*

EUR 200 *million additional modernisation programme from 2017 to 2019*

>40,000 *acquired apartments successfully integrated since the IPO*

Keep growing.

Those who focus on their strengths enjoy long-term success.
We know: we are at our strongest on home ground.

As the biggest landlord in NRW, we know this attractive market like the back of our hand. Local expertise is one of the pillars of our success. Based on efficient management of our apartments, continuous portfolio maintenance and targeted new investment, we are ensuring that this will remain the case in future.

As a company, we are only ever as successful as the people who work for us. Bundling our strengths makes us even stronger. That's why we challenge and encourage our employees and try to create the best possible working environment for them. In addition, we team up with reliable partners with additional services.

Great results need high ambition. With this in mind, we are continuously improving our processes and structures and do not simply settle for what has worked in the past. Striving for an even better solution spurs on to keep on optimising and moving forwards. This philosophy covers investment in digitisation and modernisation measures as well as management strategies which we review on a regular basis. We know that we're ready for the future. And we're looking forward to it!

Chapter

1

To the shareholders

EQUITY STORY

FOCUSED GROWTH STRATEGY AND LEADING PROFITABILITY

Attractive dividend with significant growth potential

Market leadership in the attractive metropolitan region of NRW combined with rigorous cost discipline forms the basis for leading operating profitability. LEG shareholders benefit directly from this through dividend payments that are very attractive for the sector as a whole. The improving prospects for sustainable rental growth and a constant increase in operating profitability mean that steady dividend growth can be expected to continue in the future.

Outstanding rental results through property expertise

Through its regionally focused business model, LEG has extremely good market and customer knowledge, and has continuously generated better rental results than the market in recent years. Like-for-like rental growth in the free-financed portfolio of 3.4% and a low vacancy rate of 2.9% (like-for-like) underline LEG's management expertise. For LEG shareholders, this constitutes a key pillar for future value-added.

+3.4% RENTAL GROWTH (LIKE-FOR-LIKE) IN THE FREE-FINANCED PORTFOLIO

Targeted investment to advance internal growth

Based on a detailed analysis and in line with strict criteria, LEG will invest an additional EUR 200 million in value-enhancing modernisation measures between the 2017 and 2019 financial years, focusing on energy renovation. This will result in a significant and lasting contribution to rental and earnings growth. The quality of the portfolio will also be increased further.

Constant increase in operating margins

Since the IPO in 2013, LEG has constantly improved its EBITDA margin. Profits have thus outpaced revenue growth. Starting from a level of around 64% in 2013, the margin is expected to keep rising to around 73% by 2018, driven by economies of scale with a concentrated portfolio and ongoing optimisation of internal processes.

73% FORECAST FOR EBITDA MARGIN IN 2018

Strong synergies through acquisitions in NRW core markets

LEG can increase its profitability further through acquisitions. Since the IPO at the beginning of 2013, LEG has acquired around 42,000 residential units in core markets and successfully integrated them. Synergies can be generated immediately through incorporation in the extensive portfolio. In addition, LEG uses its market knowledge to increase the rental results of its acquired residential units.

42,000 RESIDENTIAL UNITS SINCE IPO

Expansion of innovative services as an additional growth driver

Multimedia business, entry on the market for energy services, repairs management and pilot projects for support of senior citizens are milestones in innovative value-added services, which LEG is continuously expanding. As well as increasing tenant satisfaction, these services make a major contribution to earnings. In addition to the conventional letting business, LEG resolutely uses opportunities to generate additional value.

Ensuring attractive financing conditions on a long-term basis

The average loan term of around 11 years at low interest rates averaging 2.04% help to deliver high profitability and planning capability for future earnings and dividend growth. A strong balance sheet, a high level of transparency and an investment-grade rating (Moody's: Baa1) mean that LEG is extremely well-positioned on the financing market for the long term.

THE SHARE

The German stock market continued to grow in 2016 after a weak start to the year. The DAX® achieved an annual performance of 6.9%. After reaching new highs over the course of the year, discussion of a possible turnaround in interest rates weighed on residential property sector shares in the second half of the year. Including the further increase in the dividend, LEG's shares still achieved a slightly positive performance for the year of 0.5%.

The German stock market began 2016 with significant losses. The main negative factors were a broad negative development in economic indicators in Europe, the US and China, the price of oil tumbling to a twelve-year low and rising pressure in the global banking sector. The DAX® hit its lowest level for the year in February at 8,752 points.

After the Brexit vote briefly triggered high volatility in the second quarter with significant price declines at times, the stock market then recovered significantly in the second half of the year. Easing worries over the economic impact of the Brexit decision, rallying economic indicators in China and a robust trend on the labour market were the driving forces behind this positive development. This was amplified once again in the final quarter. The key catalyst for this was the result of the US election, which allowed deflation fears to fade. Thus, the DAX® ended the year at its highest level of 11,481 points, with an overall performance for the year of 6.9%.

LEG SHARES ROCKED BY DISCUSSION OVER INTEREST RATE TURNAROUND

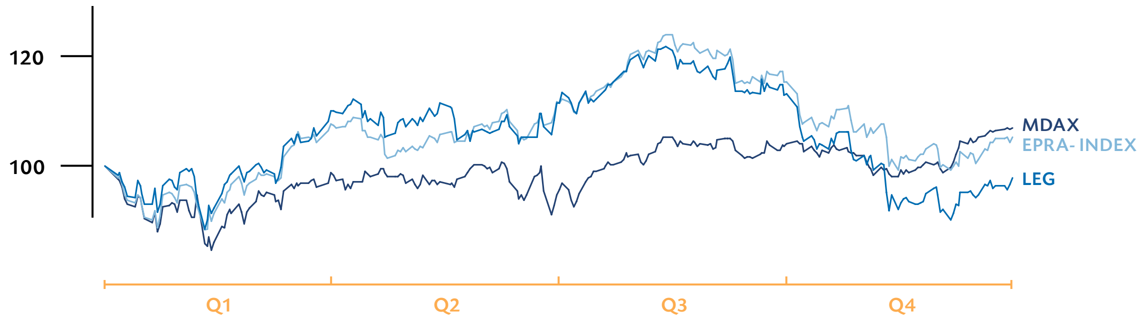
On a weak overall stock market, LEG's shares initially fell sharply to their lowest closing price for the year of EUR 66.79 in February. In an environment characterised by macroeconomic risks and negative yields even on long-term German government bonds, investment in German residential property remained an internationally preferred asset class. The shares of companies that own German residential property also continued to benefit from this. Thus, LEG's shares reached a new all-time high in August with a closing price of EUR 91.71.

However, in the second half of the year a slight rally in bond yields with a return to positive yields and an overall revitalisation of inflation expectations intensified the discussion of a forthcoming turnaround in interest rates. This triggered a sector rotation on the stock market. Industries that benefit from rising interest rates and cyclical sectors experienced greater investor demand, while defensive sectors and those that benefit from low interest rates generally came under pressure. This pressure to sell proved a uniform trend affecting all property shares – including those of LEG. Having ended the year at a price of EUR 73.80, LEG shares generated a total return of 0.5% including the dividend distribution of EUR 2.26 per share.

T2 – Share performance indicators

Ticker symbol	**LEG**
German Securities Code Number (WKN)	**LEG111**
ISIN	**DE000LEG1110**
Number of shares	**63,188,185**
Initial listing	**1 February 2013**
Market segment	**Prime Standard**
Indices	**MDAX , FTSE EPRA/NAREIT, GPR Indizes, Stoxx® Europe 600**
Closing price (31 December 2016)	**€73.80**
Market capitalisation (31 December 2016)	**€4,663.3 million**
Free float (31 December 2016)	**100%**
Weighting in the MDAX (31 December 2016)	**2.65%**
Weighting in the EPRA Europe (31 December 2016)	**2.34%**
Average single-day trading volume (2016)	**159,349 shares**
Highest price (12.08.2016)	**€91.71**
Lowest price (08.02.2016)	**€66.79**

F1 – Share price development



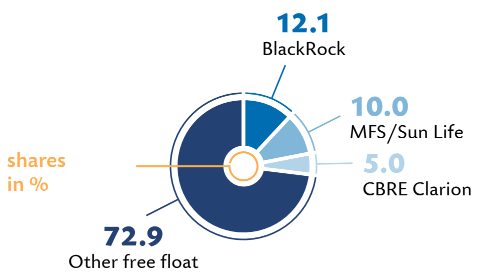
01.02.2013	04.01.2016	08.02.2016	12.08.2016	30.12.2016
Emission price	**Open**	**Low**	**High**	**Close**
44.00 €	*74.19 €*	*66.79 €*	*91.71 €*	*73.80 €*

Share Price 2016 indexed to 100

INVESTOR RELATIONS ACTIVITIES

LEG believes in ongoing active and transparent communication with capital market participants. To broaden and intensify its personal dialogue, LEG took part in investor conferences or performed roadshows at major international financial centres 33 times in the past financial year. In addition, the Management Board and the Investor Relations team met with investors at the company's head office in Dusseldorf and presented the quality of the portfolio in the context of property tours.

F2 – Shareholder structure



Coverage by the analysts at renowned research companies was further expanded at a high level. LEG shares are currently being actively tracked by 23 analysts. This, too, highlights the capital market's strong interest in LEG shares. The purchase recommendations significantly outweigh the negative ratings. Analysts' average price target was EUR 86 on 28 February 2017. A current overview of analysts' recommendations and price targets can be found on LEG's website at *www.leg-wohnen.de/en/corporation/investor-relations/share/analyst-recommendation/*.

HONOURS FOR INVESTOR RELATIONS WORK

LEG's great commitment to clear and transparent communication is seen very positively by the capital market.

The IR team took third place among MDAX® companies at the Extel Awards, the most influential ranking within the financial community. LEG took second place in the individual assessment of IR managers.

Furthermore, the quality of financial reporting received the prestigious EPRA Silver Award from the European Public Real Estate Association for the first time.

EPRA KEY FIGURES

With more than 220 members, including LEG Immobilien AG, EPRA (European Public Real Estate Association) represents the listed real estate industry in Europe. EPRA strives to establish best practices in accounting, reporting and corporate governance, to provide high-quality information to investors.

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

T3 – EPRA key figures

€ million	**2016**	*2015*	*Details*
EPRA Vacancy (like-for-like) in %	2.9	2.5	See page 69
EPRA Earnings per Share	3.76	2.73	See page 74
EPRA NAV	4,641.0	4,027.1	See page 76
EPRA NAV per share in €	67.79	59.31	See page 76
EPRA NNNAV	3,734.4	3,363.3	See page 76
EPRA NNNAV	54.54	49.53	See page 76
EPRA Net Initial Yield in %	4.8	5.5	See glossary
EPRA „topped-up" Net Initial Yield in %	4.8	5.5	See glossary
EPRA Cost Ratio incl. direct vacancy costs in %	29.9	32.0	See glossary
EPRA Cost Ratio excl. direct vacancy costs in %	28.6	30.7	See glossary
EPRA Cost Ratio, adjusted by maintenance incl. direct vacancy costs in %	15.7	19.5	See glossary
EPRA Cost Ratio, adjusted by maintenance excl. direct vacancy costs in %	14.4	18.1	See glossary

PORTFOLIO

As at 31 December 2016, LEG Immobilien AG's portfolio comprised 128,488 residential units, 1,148 commercial units and 31,640 garages and parking spaces. The assets are distributed across around 170 locations in North Rhine-Westphalia. The average apartment size is 64 square metres with three rooms. The buildings comprise seven residential units on average across three storeys.

PORTFOLIO SEGMENTATION

The LEG portfolio is divided into three market clusters using a scoring system: high growth markets, stable markets and higher yielding markets.

The scoring model is updated every three years. The last update as at 31 December 2015 used data sets provided to LEG on the basis of the cooperation with INWIS Forschung & Beratung GmbH and CBRE. The indicators used are based on the following demographic, socio-economic and property market data:

- Population trend 2011 to 2014 (INWIS/IT. NRW)
- Household forecast 2012 to 2030 (BBSR)
- Purchasing power index 2014 (INWIS/GFK)
- Trend in number of people in employment paying social security contributions 2005 to 2014 (INWIS/IT. NRW)
- Asking rents Q3 2014 to Q2 2015 (Empirica)
- Market vacancy rate 2014 (CBRE/Empirica)

Clustering is performed comprehensively at district level and includes the districts in which LEG does not own any properties (Kleve, Viersen und Olpe).

High growth markets

High growth markets are characterised by a positive population trend, favourable forecasts for household numbers and sustained high demand for housing. These high growth regions are situated in the Rhineland and around the Westphalian regional centres of Münster, Bielefeld and Paderborn.

Stable markets

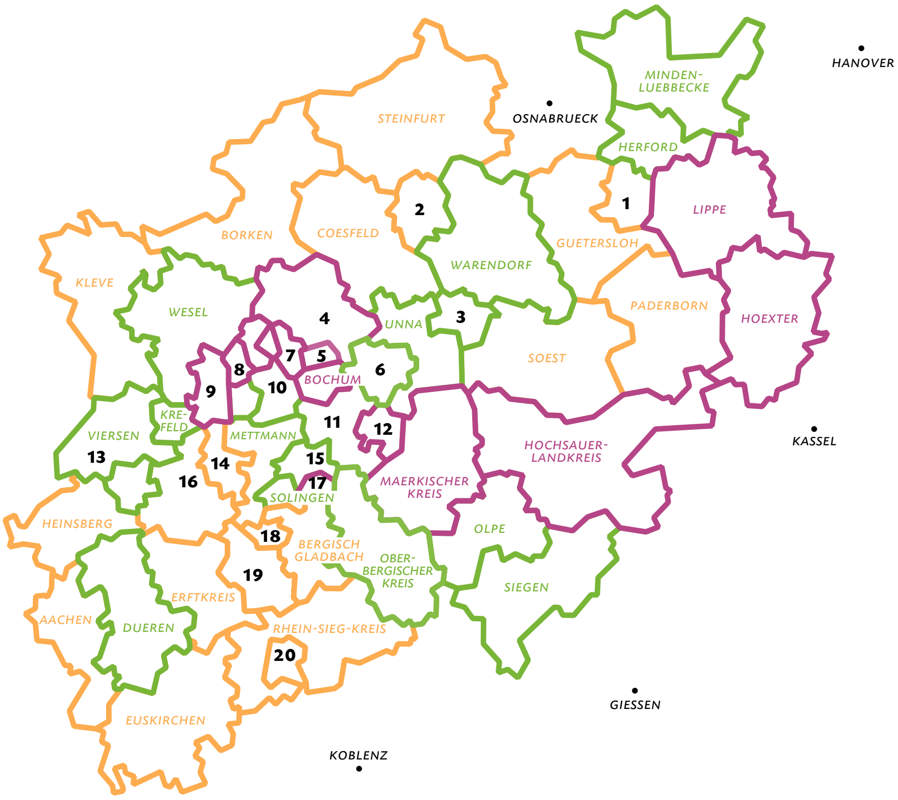
Stable markets are more heterogeneous than high growth markets in terms of their demographic and socio-economic development; their housing industry appeal is on average solid to high. This segment includes the core cities of the Ruhr area – Essen and Dortmund –, the areas of Bergisches Land and Siegerland, and the Hamm and Unna regions in Westphalia, for example.

Higher yielding markets

Higher yielding markets are subject to a higher risk of population decline. However, a strong local presence, attractive micro-locations and good market access mean there are still opportunities for attractive returns on these sub-markets. The higher yielding markets are concentrated on a semi-circular area extending from the Lippe district and Höxter, Hochsauerland district and the Märkisch district to the city of Hagen. The Ruhr cities of Duisburg, Gelsenkirchen, Bochum and Herne are also assigned to this cluster, as is the Recklinghausen district.

F3 – LEG in North Rhine-Westphalia by market segment

High-growth markets
Stable markets
Higher-yielding markets



- **1** *Bielefeld*
- **2** *Muenster*
- **3** *Hamm*
- **4** *Recklinghausen*
- **5** *Herne*
- **6** *Dortmund*
- **7** *Gelsenkirchen*
- **8** *Oberhausen*
- **9** *Duisburg*
- **10** *Essen*
- **11** *Witten*
- **12** *Hagen*
- **13** *Moenchengladbach*
- **14** *Dusseldorf*
- **15** *Wuppertal*
- **16** *Neuss*
- **17** *Remscheid*
- **18** *Leverkusen*
- **19** *Cologne*
- **20** *Bonn*

PERFORMANCE OF THE LEG PORTFOLIO

Operating development

Over the 2016 financial year as a whole, 22,130 residential units in total were added to LEG's portfolio as a result of the economic transfer of several acquisitions. Around 4,260 residential units were sold overall for reasons of portfolio strategy, including around 170 individual privatisation transactions. The transfer of some of these disposals will only take place in 2017.

Rent continued the positive development as expected. On a like-for-like basis (not including new lettings), rent per square metre was up by 2.5% to EUR 5.34 in the year under review. In-place rent was EUR 5.28 as at the end of the year.

A key indicator of LEG's management expertise is rent development in its free-financed portfolio. An increase of 3.4% year-on-year to EUR 5.67 per square metre (on a like-for-like basis) was achieved here. All market segments contributed to this development. Rent developments were particularly dynamic on the high growth markets, where rent rose by 3.7% to EUR 6.46 per square metre (on a like-for-like basis). There was an increase in rents of 3.0% to EUR 5.28 per square metre (on a like-for-like basis) on the stable markets as at 31 December 2016. The higher yielding market segment reported growth in rents of 3.2% to EUR 5.16 per square metre (on a like-for-like basis).

In the rent-restricted apartments sector, the average rent rose by 0.5% year-on-year to EUR 4.69 per square metre (on a like-for-like basis).

The EPRA vacancy rate of the LEG portfolio was 2.9% (on a like-for-like basis) as at 31 December 2016 and therefore at a low level overall. The number of vacant apartments amounted to 3,161 units (on a like-for-like basis) or, taking into account the acquisitions during the year, 4,280 units. LEG's residential units on the high growth markets were virtually fully let with an occupancy rate of 98.7% (on a like-for-like basis). On the stable markets, which had an occupancy rate of 97.1%, the three biggest locations (Dortmund, Mönchengladbach, Hamm) reported low vacancy rates of less than 2%. The portfolio on the higher yielding markets was 94.6% let at the end of 2016.

Value development

The following table shows the distribution of assets by market segment. The rental yield on the portfolio based on in-place rents is 6.6% (rent multiplier: 15.2x). The valuation of the residential portfolio corresponds to an EPRA net initial rental yield of 4.8%.

T4 – Acquisitions in 2016

Residential units	*Main locations*	*Markets*	*Transfer*	*Annual net cold rent*	*In-place rent*	*Vacancy rate*
1,100	Recklinghausen, Herne	Stable and higher yielding markets	May 2016	EUR ~4.0 million	4.46 €	5.4%
560	Hamm, Krefeld, Duisburg	High growth and stable markets	December 2016	EUR ~1.8 million	4.96 €	7.1%
320	Duisburg, Herten	Higher yielding and stable markets	January 2017	EUR ~2.0 million	4.62 €	2.1%

T5 – Portfolio segments – Top 3 locations

	31.12.2016				
	Number of LEG apartments	*Share of LEG portfolio %*	*Living space sqm*	*In-place rent €/sqm*	*EPRA vacancy rate %*
HIGH-GROWTH MARKETS	**39,207**	**30.5**	**2,593,481**	**5.88**	**1.4**
District of Mettmann	8,508	6.6	591,738	6.02	1.1
Muenster	6,075	4.7	403,395	6.33	0.4
Dusseldorf	3,543	2.8	227,948	6.55	0.7
Other locations	21,081	16.4	1,370,400	5.57	1.9
STABLE MARKETS	**46,991**	**36.6**	**3,022,396**	**5.02**	**3.2**
Dortmund	13,164	10.2	862,666	4.85	1.9
Moenchengladbach	6,447	5.0	408,462	5.19	1.5
Hamm	4,132	3.2	248,480	4.89	1.9
Other locations	23,248	18.1	1,502,788	5.09	4.5
HIGHER-YIELDING MARKETS	**40,396**	**31.4**	**2,467,955**	**4.94**	**6.0**
District of Recklinghausen	9,140	7.1	569,073	4.87	6.9
Duisburg	7,123	5.5	441,858	5.16	4.7
Maerkisch District	4,838	3.8	297,710	4.79	3.9
Other locations	19,295	15.0	1,159,315	4.92	6.6
OUTSIDE NRW	**1,894**	**1.5**	**127,275**	**5.61**	**2.2**
TOTAL	**128,488**	**100.0**	**8,211,106**	**5.28**	**3.3**

T6 – Performance LEG portfolio

		High-growth markets		*Stable markets*	
		31.12.2016	*31.12.2015*	**31.12.2016**	*31.12.2015*
Subsidised residential units					
Units		13,205	13,002	15,213	14,200
Area	sqm	931,092	914,382	1,035,366	963,193
In-place rent	€/sqm	4.94	4.94	4.57	4.57
EPRA vacancy rate	%	0.8	0.7	2.7	2.5
Free-financed residential units					
Units		26,002	24,327	31,778	26,323
Area	sqm	1,662,389	1,552,340	1,987,030	1,634,003
In-place rent	€/sqm	6.41	6.24	5.25	5.13
EPRA vacancy rate	%	1.6	1.4	3.4	2.6
Total residential units					
Units		39,207	37,329	46,991	40,523
Area	sqm	2,593,481	2,466,722	3,022,396	2,597,195
In-place rent	€/sqm	5.88	5.76	5.02	4.92
EPRA vacancy rate	%	1.4	1.2	3.2	2.6
Total commercial					
Units					
Area	sqm				
Total parking					
Units					
Total other					
Units					

	31.12.2015						
	Number of LEG apartments	*Share of LEG portfolio %*	*Living space sqm*	*In-place rent €/sqm*	*EPRA vacancy rate %*	*Change in-place rent % like-for-like*	*Change (basis points) vacancy rate like-for-like (31.12.2016)*
	37,329	**34.3**	**2,466,722**	**5.76**	**1.2**	**2.7**	**20**
	8,160	7.5	565,696	5.84	1.1	3.4	–10
	6,076	5.6	403,461	6.20	0.2	2.1	20
	3,503	3.2	227,096	6.32	0.8	3.5	–20
	19,590	18.0	1,270,469	5.47	1.6	2.3	30
	40,523	**37.2**	**2,597,195**	**4.92**	**2.6**	**2.1**	**30**
	12,439	11.4	813,340	4.80	1.5	1.6	40
	6,037	5.5	382,442	5.05	1.5	2.3	–10
	3,974	3.6	239,782	4.76	1.4	3.0	–10
	18,073	16.6	1,161,631	5.00	3.9	2.3	40
	29,607	**27.2**	**1,818,825**	**4.83**	**4.8**	**2.4**	**70**
	6,554	6.0	408,611	4.83	6.3	1.0	120
	6,519	6.0	403,003	5.02	4.2	3.3	40
	4,679	4.3	287,067	4.62	2.7	4.6	100
	11,855	10.9	720,144	4.81	5.1	1.9	50
	1,457	**1.3**	**96,230**	**5.49**	**0.7**	**3.3**	**130**
	108,916	**100.0**	**6,978,972**	**5.21**	**2.6**	**2.5**	**40**

		Higher-yielding markets		*Outside NRW*		*Total*	
		31.12.2016	*31.12.2015*	**31.12.2016**	*31.12.2015*	**31.12.2016**	*31.12.2015*
		8,584	7,289	124	108	37,126	34,599
	sqm	566,207	481,227	9,894	8,824	2,542,559	2,367,626
	€/sqm	4.39	4.33	4.50	4.37	4.67	4.67
	%	5.7	5.4	1.3	0.0	2.6	2.3
		31,812	22,318	1,770	1,349	91,362	74,317
	sqm	1,901,748	1,337,598	117,381	87,405	5,668,547	4,611,346
	€/sqm	5.10	5.01	5.71	5.60	5.56	5.48
	%	6.1	4.6	2.2	0.8	3.6	2.7
		40,396	29,607	1,894	1,457	128,488	108,916
	sqm	2,467,955	1,818,825	127,275	96,230	8,211,106	6,978,972
	€/sqm	4.94	4.83	5.61	5.49	5.28	5.21
	%	6.0	4.8	2.2	0.7	3.3	2.6
						1,148	**1,053**
	sqm					193,542	**183,440**
						31,640	**26,840**
						2,199	**1,526**

Investment activity

EUR 149.6 million was invested in the maintenance and value enhancement of the portfolio in the 2016 financial year. This marks an increase of 31.0% as against the previous year (EUR 114.2 million), which is mainly due to activities in acquired property portfolios. Per square metre, investment was up from around EUR 16 to around EUR 18. EUR 77.6 million (previous year: EUR 59.8 million) of the total investments qualified as capital expenditure, while maintenance measures accounted for EUR 72.0 million (previous year: EUR 54.4 million). The capitalisation rate for the year under review was therefore 51.8% and nearly in line with the previous year (previous year: 52.4%).

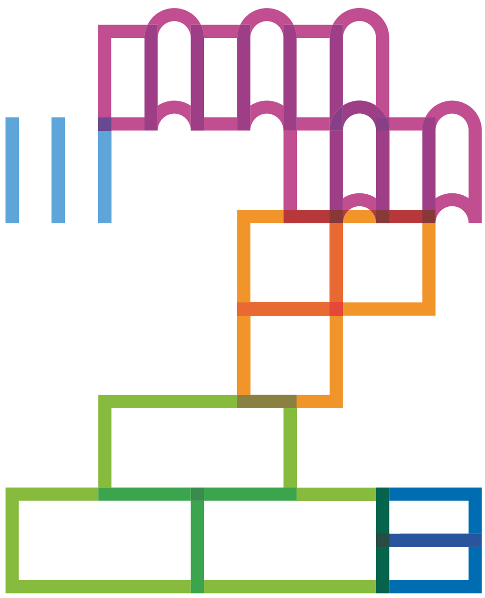
A special focus was on investment measures to increase energy efficiency. The largest investment locations included Dortmund with extensive energetic renovations and the remodeling of units into barrier free apartments and bathrooms. Larger modernisation measures were also carried out, amongst others, in Duisburg, Leverkusen and Münster. The revitalisation measures at the listed Reuter estate in Bonn initiated at the end of 2015 were also continued.

T7 – 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	**39,207**	**3,324**	**43**	**1,282**	**18.6x**	**191**	**3,514**
District of Mettmann	8,508	711	9	1,202	17.0x	69	780
Muenster	6,075	634	8	1,574	20.9x	39	673
Dusseldorf	3,543	364	5	1,620	20.8x	22	385
Other locations	21,081	1,614	21	1,175	18.0x	60	1,675
STABLE MARKETS	**46,991**	**2,439**	**32**	**807**	**13.8x**	**106**	**2,545**
Dortmund	13,164	733	10	846	14.9x	38	770
Moenchengladbach	6,447	341	4	835	13.6x	10	351
Hamm	4,132	181	2	727	12.7x	4	184
Other locations	23,248	1,184	15	790	13.5x	55	1,239
HIGHER-YIELDING MARKETS	**40,396**	**1,754**	**23**	**708**	**12.7x**	**50**	**1,804**
District of Recklinghausen	9,140	423	6	733	13.5x	19	442
Duisburg [4]	7,123	318	4	714	12.1x	10	328
Maerkisch District	4,838	193	3	648	11.9x	2	195
Other locations	19,295	820	11	707	12.7x	18	838
SUBTOTAL NRW	**126,594**	**7,516**	**98**	**929**	**15.2x**	**347**	**7,863**
Portfolio outside NRW	1,894	131	2	1,023	15.3x	2	132
TOTAL PORTFOLIO	**128,488**	**7,647**	**100**	**930**	**15.2x**	**349**	**7,995**
Prepayments for property held as an investment property							28
Leasehold + land values							36
Inventories (IAS 2)							3
Finance lease (outside property valuation)							3
TOTAL BALANCE SHEET [3]							**8,065**

[1] Excluding 324 residential units in commercial buildings; including 328 commercial and other units in mixed residential assets.
[2] Excluding 328 commercial units in mixed residential assets; including 324 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] Thereof assets held for sale EUR 57.0 million and owner-occupied property (IAS 16) EUR 23.2 million.
[4] Residential units containing 575 apartments, disposed 31.12.2016.

Chapter



Corporate Governance

REPORT OF THE SUPERVISORY BOARD

MICHAEL ZIMMER
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

LEG again demonstrated the strength of its business model and successfully advanced its focussed growth strategy in the 2016 financial year.

Since its IPO, it has more than achieved its self-imposed goal of acquiring 5,000 apartments per year with around 40,000 apartments. In the 2016 financial year, however, this goal of 5,000 apartments was not achieved as only 2,013 units were acquired. This is due to the fact that the supply on the market was significantly reduced compared to previous years, and the apartments available were inconsistent with LEG's profile. However, the medium-term modernisation programme for LEG's own properties was expanded with a volume of around EUR 200 million as a further contribution to value added by leveraging valuation potential.

The shortage of supply on the acquisition market once again clearly illustrates the major importance to LEG of both internal and external growth.

LEG takes internal growth into account by continually reviewing its performance and testing the results with its strategy. LEG's strategy is subject to continuous, comprehensive analysis, comparing against and observing the relevant market influences, factors and developments. A key goal of LEG is to constantly enhance its performance.

The Management Board and the Supervisory Board work intensively on LEG's strategy. They plan to use intelligent partnerships to expand the range of services directly and indirectly related to housing. Innovations are being applied to identify new business areas to generate value added for LEG. LEG is actively leveraging the opportunities of both digitising its own business processes and IT infrastructure and for developing new services. In doing so, it is still focused on its core market of North Rhine-Westphalia.

In day-to-day business in 2016, strategy was essentially crystallised in the key "Reorganisation of Operations 2016+" project.

"Reorganisation of Operations 2016+" is a major milestone in performance optimisation. It is the most extensive reorganisation of operating activities since the LEG Group was founded. A central aspect of the reorganisation is the separation of the Residential and Service segments. This once again emphasises the importance of the Residential and Service segments by stepping up the focus on their core competencies. At the same time, the focus on customer orientation and the service concept was intensified in day-to-day business.

The 2016 financial year was also characterised by preparations for the establishment of new cooperations. TechnikServicePlus GmbH, a joint venture between LEG and the trades service provider B&O that will be in charge of small repairs management for LEG's properties, commenced operations on 1 January 2017. On the one hand, LEG is thus taking advantage of the opportunity to participate in the value added of small repairs management. On the other, it means that these services can be managed from a single source and therefore even more in the interests of tenants and the company.

LEG is continuing to examine its profitability on an ongoing basis and is initiating programmes to enhance efficiency. These programmes are ambitious and challenging, but the success of the measures launched to date shows that this is the right way to expand the performance of LEG and thereby to satisfy shareholders' needs in future as well.

KEY AREAS OF SUPERVISORY BOARD ACTIVITIES

As described in the context, LEG is subject to an ongoing development and optimisation process. As the Supervisory Board, we feel a special responsibility here to assist the Management Board in performing its duties. This requires intensive cooperation between the Management Board and the Supervisory Board on a regular and comprehensive basis to discuss strategic, economic and financial issues in addition to business developments. In addition to their regular meetings, the Management Board and the Supervisory Board held two strategy conferences in 2016. The Chairman of the Supervisory Board was in regular contact with the Management Board.

The members of the Supervisory Board were always at the company's disposal in the 2016 financial year – even for meetings and conference calls arranged at short notice. There were four scheduled meetings of the Supervisory Board and six extraordinary meetings (some of which held as conference calls) in the 2016 financial year.

The composition of the Supervisory Board ensures that the members of the Supervisory Board must have the necessary knowledge, abilities and specific experience to perform their duties properly. The 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. In selecting the successor to Mr Jürgen Schulte-Laggenbeck, the Nomination Committee of the Supervisory Board of LEG Immobilien AG held intensive discussions and its choice for the successor proposed to the Supervisory Board was made on the basis of criteria defined in advance.

At the proposal of the Supervisory Board, based on the Nomination Committee's proposal, Dr Claus Nolting was elected to the Supervisory Board by the Annual General Meeting on 19 May 2016 as the successor to Supervisory Board member Mr Jürgen Schulte-Laggenbeck, who resigned his mandate effective 31 December 2015.

EXECUTIVE COMMITTEE

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte, and Dr Johannes Ludewig. Dr Jochen Scharpe has been elected as a deputy member. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. The Executive Committee met six times in the 2016 financial year, with three of these meetings taking the form of a conference call.

At its meetings and by way of written procedure, the Executive Committee intensively discussed the acquisition of housing packages, the revision of the financing strategy with a view to further growth and LEG's investment in a company for small repairs management. The Executive Committee issued the appropriate recommendations to the Supervisory Board on these individual issues. The acquisitions amounted to a total volume of 2,013 residential units.

The Executive Committee also discussed and adopted resolutions on the achievement of targets by members of the Management Board and other Management Board issues (e.g. salary review). The Executive Committee examines developments on the capital market as a fixed agenda item at its meetings.

NOMINATION COMMITTEE

The Nomination Committee meets as required and proposes suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The Nomination Committee consists of members of the Executive Committee. The Nomination Committee did not meet in the 2016 reporting year.

AUDIT COMMITTEE

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

The Audit Committee met four times in the 2016 financial year. The matters covered at the ordinary Audit Committee meetings were the detailed discussion of the annual financial statements and annual report, including the 2015 management report (separate financial statements) and the consolidated financial statements and annual report, including the 2015 management report. The Audit Committee also acknowledged the reports of the Management Board on the quarterly figures, the internal key performance indicators ("KPI tree") compared to the peer group and the financial structure. Furthermore, at its meetings the Audit Committee intensively discussed loan planning for 2016 and the revision of the treasury policy and the 2016 sales programme. The Audit Committee also discussed the report of the Management Board in accordance with section 107(3) AktG, the implementation of the legal amendments to the Market Abuse Directive and the Audit Regulation, including the necessary changes to the Rules of Procedure of the Audit Committee and the Management Board resulting from this, the revision of the 2017 modernisation and maintenance programme, the prolongation and modification of a credit line for acquisitions, the conclusion of loan framework agreements, tax planning for the years 2017 to 2021 and primarily business planning for the years 2017 to 2021.

One resolution was passed by way of written procedure. This resolution had previously been discussed in detail at the Audit Committee meeting, but it had not been ready to make a decision at the time of the meeting.

T8 – Audit Committee meeting attendance 2016

Audit Committee Member	*08.03.16*	*30.05.16*	*27.09.16*	*29.11.16*
Stefan Jütte (Chairman)	X	X	X	X
Dr Jochen Scharpe (Deputy Chairman)	X	X	X	X
Natalie Hayday	X	X	X	X

X = attendance

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board met for four ordinary Supervisory Board meetings in the 2016 financial year. The Supervisory Board also held conference calls as necessary at short notice.

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 at least half the meetings.

T9 – Supervisory Board meeting attendance 2016

Supervisory Board Member	*09.03.16*	*31.05.16*	*28.09.16*	*30.11.16*
Michael Zimmer (Chairman)	X	X	X	X
Stefan Jütte (Deputy Chairman)	X	X	X	X
Dr Johannes Ludewig	–	X	X	X
Dr Jochen Scharpe	X	X	X	X
Dr Claus Nolting	no membership	–	X	X
Natalie Hayday	X	X	–	X

With the exception of Dr Ludewig, all Supervisory Board members attended the Annual General Meeting on 19 May 2016
X = attendance, – = no attendance

At its meeting on 9 March 2016, following a detailed examination and discussion, the Supervisory Board adopted the annual financial statements for 2015, including the management report, and approved the consolidated financial statements for 2015, including the Group management report, at the recommendation of the Audit Committee. In preparation for the fourth 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 fourth Annual General Meeting and decided the appointment of the auditor for 2016.

The Supervisory Board adopted the report of the Supervisory Board for the 2015 financial year to the Annual General Meeting; the Supervisory Board approved the annual report for 2015, including the joint report by the Management Board and the Supervisory Board on corporate governance in accordance with item 3.10 of the German Corporate Governance Code. Moreover, it updated its goals in accordance with item 5.4.1 of the German Corporate Governance Code.

The Supervisory Board dealt intensively with the achievement of targets by the Management Board. PwC was commissioned to review whether the figures on which the short-term incentive was calculated are consistent with the consolidated financial statement figures as at 31 December 2015. PwC confirmed the arithmetical accuracy of the calculation of the short-term incentive. On the basis of the figures checked by PwC against the consolidated financial statements, the Supervisory Board resolved the payment of bonus entitlements earned by the Management Board (100% of the target short-term incentive) for the 2015 financial year. In this context, the Supervisory Board also discussed the attainment of the 2013 and 2014 long-term incentives and, based on this, resolved the full payment of the 2013 long-term incentive for performance period 2 and of the 2014 long-term incentive for performance period 1. The other main points of the meeting of the Supervisory Board on 9 March 2016 were the revision of the 2016 sales programme, 2016 loan planning, the revision of the treasury policy and portfolio acquisitions.

The Supervisory Board meeting on 31 May 2016 mainly dealt with the legal amendments to the Market Abuse Directive and the Audit Regulation, including the necessary changes to the Rules of Procedure of the Audit Committee and the Management Board entailed by this, the reports of the committees, the acknowledgement of the quarterly report for Q1-2016, the resolution on the remuneration adjustment for Mr Holger Hentschel (COO) and the acknowledgement of reports on key projects of the company. The Supervisory Board also acknowledged the report on the duty to implement safety precautions in the 2015 financial year.

The meeting of the Supervisory Board on 28 September 2016 focused on the acknowledgement of the H1-2016 report and Supervisory Board reporting, the discussion of the concept for establishing a joint venture, the financing strategy, reports from the committees and the efficiency analysis of the Supervisory Board. The Supervisory Board also acknowledged the agenda for the planned strategy conference in October 2016.

The final meeting of the Supervisory Board in the 2016 financial year on 30 November 2016 focused on the acknowledgement of the Q3-2016 quarterly report, Supervisory Board reporting, the approval of business planning for 2017 and the acknowledgement of business planning for the years 2018 to 2021, which was first discussed intensively by the Audit Committee on 29 November 2016.

The Supervisory Board also approved the conclusion of loan framework agreements and the issuance of the declaration of compliance by the Supervisory Board and Management Board in accordance with section 161 AktG. Furthermore, the Supervisory Board resolved the 2017 long-term incentive targets for the Management Board for performance period 1 (2017 to 2018), performance period 2 (2017 to 2019) and performance period 3 (2018 to 2020).

The Supervisory Board discussed the results of the efficiency analysis of the Supervisory Board.

On the recommendation of the Executive Committee and after intensive discussion at various committee meetings of the Supervisory Board, the Supervisory Board approved LEG's involvement in a company for small repairs management by way of written procedure in December 2016.

CORPORATE GOVERNANCE

Working with the Management Board, in November 2016 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 2015 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 appointed as the auditor of the annual and consolidated financial statements for the 2016 financial year. PwC audited the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report, for the 2015 financial year and issued an unqualified audit opinion for each.

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

The Supervisory Board received the audited and certified annual financial statements and the management report for the 2015 financial year in good time. The Supervisory Board conducted its own audit, taking into account the report of the auditor and the report of the Chairman of the Audit Committee on the preliminary audit of the annual financial statements. The same applies to the consolidated financial statements, the Group management report and the proposal of the Management Board for the appropriation of earnings.

At the meeting of the Audit Committee on 8 March 2016 and at the meeting of the Supervisory Board on 9 March 2016, representatives for the auditor explained the results of the audit as a whole and the individual areas of audit focus. There were no objections. The auditors found no facts during their audit that contradict the declaration of compliance.

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

The Supervisory Board approved the (separate) financial statements and management report for 2015 and the consolidated financial statements and Group management report for 2015 in accordance with the proposal of the Audit Committee on 9 March 2016. The annual financial statements for 2015 were therefore adopted and the consolidated financial statements for 2015 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 141,859,720.88 as a dividend (EUR 2.26 per share).

The remaining part of the unappropriated surplus in the amount of EUR 6,607,874.01 will be carried forward to new account.

At its meeting on 8 March 2017, after in-depth examination and discussion, the Supervisory Board adopted the annual financial statements for 2016, including the management report, and approved the consolidated financial statements for 2016, including the Group management report, on the recommendation of the Audit Committee.

THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The composition of the Management Board in the 2016 financial year was the same as it has been since the IPO in 2013.

The Supervisory Board wishes to thank the Management Board and the employees of the LEG Group for their ambitious support in the ongoing development of LEG and the improvement in its efficiency. The positive response to LEG's development is reflected in the confidence of its shareholders. The Supervisory Board would like to thank the shareholders for this.

Dusseldorf, 8 March 2017

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 103 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 5 May 2015 ("Code").

The Management Board and Supervisory Board have discussed compliance with the recommendations of the Code and, in November 2015, 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 2015 financial year has been printed in the corporate governance declaration (page 103 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 reduction of the number of Supervisory Board members in the year 2014), on 18 September 2015 (on account of the specification of a regular limit for re-appointments) as well as on 31 May 2016 (on account of the Supervisory Board members' familiarity with the sector):

— 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. 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 at the time of the election should be proposed for the Supervisory Board. Furthermore, independent of age, a regular limit of length of membership of fifteen years (first time appointment plus two re-appointments) was stipulated.

— 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. Furthermore, in the event of reappointments, it should be considered that the Supervisory Board as a whole is familiar with the sector.

The Supervisory Board feels it has accomplished all these goals with the current composition of the Supervisory Board. In particular, in its own estimation, the Supervisory Board has an appropriate number of independent members; in the opinion of the Supervisory Board, the members Ms Natalie Hayday, Mr Stefan Jütte, Dr Claus Nolting and Dr Jochen Scharpe currently qualify as independent financial experts.

DIRECTORS' DEALINGS

In accordance with the Market Abuse Regulation (MAR) article 19, the members of the Supervisory Board and the Management Board are required to disclose transactions involving shares and bonds of LEG Immobilien AG or related financial instruments immediately if the value of the transactions attributable to the member or related persons reaches or exceeds a total of EUR 5,000 within a calendar year. Four such transactions were reported to LEG Immobilien AG in the 2016 financial year. Details of these transactions were published as required and can be accessed on the company's website at *www.leg-wohnen.de/en/corporation/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 2016, 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 45 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 103 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.ag*.

COMPLIANCE

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance system is designed for 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 assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who 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 Internal Audit, Legal and Human Resources discuss the design of the compliance system with the external ombudsman. 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. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor.

Compliance is assigned to the Legal, Internal 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

LEG sees sustainability as a corporate obligation and implements it in a variety of ways in relation to its tenants, investors, business partners and employees. As one of the largest housing companies in Germany, LEG takes social responsibility, manages and acts sustainably and thereby balances its economic, social and environmental goals.

LEG considers itself as having a corporate responsibility to provide tenants with a home in an intact environment, attractive housing and selected value-added services at a fair price. People of every background and culture should feel safe and at home where they live. Among other things, LEG seeks to achieve this through social projects, events and the LEG NRW Tenant Foundation.

FOR TENANTS – SATISFACTION IN THEIR NEIGHBOURHOODS

In addition to targeted investments and sustainable property management, neighbourhood management is a key element when it comes to preserving and enhancing the value of the company. LEG works closely with cities and communities and forms cooperations with local institutions. By working with various associations and initiatives – from sports clubs to Workers' Welfare, from the Red Cross to community centres – LEG creates value added for its tenants and society at large. In addition to a number of joint initiatives, the company provides charitable organisations with rooms free of charge for intercultural meeting places, cafés or youth work.

LEG is the only housing company in Germany to offer its tenants an extensive holiday and leisure programme throughout the year. This is part of its neighbourhood and integration management. In 2016 there were more than 150 events in North Rhine-Westphalia. Whether for children, young people, adults or seniors – all activities organised by LEG help neighbourhoods to grow closer together. It offers tenant anniversary celebrations and excursions, barbecues, craft and cooking afternoons, tutoring, language courses and much more.

The company traditionally sponsors local sporting events and clubs. For example, it supports SC Nienhausen's LEG Football Cup and the integrative running team of the Blau-Weiss Aasee Sports Club in Münster, in addition to the LEG Arminia Football School in Bielefeld. Every year, LEG also sponsors Ratinger ZeltZeit, a nationally known festival with cabaret, culture, games and sports.

For the last two years, LEG has been sponsoring the social and educational "Hope Fleet" sailing project run by sunshine4kids. The Hope Fleet provides a holiday for children and young people experiencing adversity. The company also adopted a ship in the reporting year. At the start of August 2016, tenants' children and youngsters living in difficult situations sailed from Fehmarn to Neustadt.

LEG provides aid in the integration of refugees. Firstly, it provides urgently needed places to live. Secondly, its tenant festivals and projects help people feel at home in Germany more quickly. By the end of 2016, LEG had let around 2,000 apartments for refugee housing, either to local councils in NRW or to the refugees directly. The company attaches particular importance to targeted occupancy management to help integrate new neighbours. LEG also provides multilingual information on housing for refugees and foreign tenants on its company website, on posters and on flyers. Furthermore, the LEG subsidiary WohnServicePlus is continuously expanding its range of foreign language packages for TV and Internet.

The crisis advice campaign launched in 2015 in cooperation with Schuldnerhilfe Cologne was continued in 2016. The non-profit association provides free assistance to people who, for example, can no longer pay their rent – anonymously if so desired – as part of the project "NRW Rent Arrears Service – Preventive Budget Counselling for Secure Housing". The project, which runs until August 2017, is being funded by the NRW Ministry of Labour, Integration and Social Affairs.

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 improved tolerance and understanding among individuals from different cultural backgrounds. The foundation provided around EUR 96,000 for tenants in 2016.

FOR THE ENVIRONMENT – SUSTAINABLE MANAGEMENT AND ENERGY RENOVATION

EnergieServicePlus (ESP) commenced operations at the start of 2016. The company, which was founded together with the cooperation partner innogy (formerly RWE), bundles all tasks and services in the field of energy management. ESP is responsible for operating, maintaining and investing in energy-efficient systems technology, and is gradually providing heating for more and more properties. Around 100 heating systems have already been modernised. ESP is therefore helping to reduce CO_2 emissions in LEG's building portfolio.

With average final energy consumption for heating of 140 kWh/sqm, LEG exactly matches the German national average. This key figure was obtained by evaluating the energy performance of 73% of buildings in the portfolio using the energy consumption value, which includes energy consumption for heating and hot water. LEG's goal is to further reduce energy consumption per square meter through continuous modernisation measures.

In 2016 the company invested around EUR 28 million in total in measures to enhance the energy efficiency of its housing. For example, EUR 3.4 million was spent on the modernisation of 200 apartments in Dortmund-Scharnhorst. This work included insulating facades with a thermal insulation composite system, installing new windows and apartment entrance doors and new electrical installations in the stairwells.

By 2021 LEG will improve the energy consumption of around half of the 2,800 apartments in Monheim, thereby reducing heating costs for tenants. Here, too, the company is working to gradually insulate facades, roofs and cellar ceilings. The new windows are frequently triple-glazed, and some building entrances have been designed to be more accessible. In 2016 alone, LEG invested EUR 1 million in improving the energy efficiency of buildings in Monheim. In cooperation with the city, LEG is implementing a holistic concept for the management of the district.

These and other modernisation measures will ensure the future viability of LEG's housing portfolio, reduce CO_2 emissions and contribute to greater quality of living for tenants. In the years ahead as well, LEG will invest extensively in the refurbishment – energy and otherwise – of its residential portfolio. An additional modernisation programme was launched for this in autumn 2016. As a result of an intensive analysis of the LEG portfolio, potential for additional investments totalling around EUR 200 million has been identified for the next three years. From the middle of 2017 onwards, investment will primarily focus on the energy-saving renovation of building shells. Other measures include adding balconies, bathroom modernisation and roof top extensions, adding extra floors and converting apartments for senior housing. The regional focus of the additional modernisation programme is on the attractive high growth markets of greater Dusseldorf and Münster in addition to Dortmund.

The company is currently working in Münster to fill in vacant lots. By the beginning of 2018, a total of 51 free-financed rental units will be built in four new buildings close to the city centre for EUR 7.7 million. It is one of the first car-free estates in Germany and now on the verge of completion after 15 years. What makes the estate (Gartensiedlung Weissenburg) so special are its social and ecological basic ideals: from the low-energy house standard and many green areas, to active resident participation in planning and construction issues to an exceptionally child-friendly living environment with playgrounds and car-free footpaths.

LEG is one of the founding members of the "Action Alliance for Climate-neutral Housing". The goals of the energy revolution are to be achieved by significantly reducing heat consumption in residential property and thus CO_2 emissions at economically justifiable costs. The Alliance is focused on technical measures with a high cost/benefit effect, a high degree of innovation and digitisation and pronounced practicality. Together with LEG, the Action Alliance includes other companies such as Vonovia, Techem Energy Services and Danfoss, representatives for research institutions like the EBZ Business School and associations, for example GdW. These members are committed to supporting the energy efficiency approach of the federal government and other alliances in the worlds of politics and business. A pilot project by EBZ Bochum with TU Dresden is investigating the effect of past energy efficiency measures in selected properties. It is also testing how effective low-investment measures are in distributing and utilising heat in buildings. This includes, for example, improving the efficiency of heating systems through technical measures, communicating consumption promptly to tenants, automating heating control and setting up user-assistance systems for energy-efficient ventilation. Through these measures the Action Alliance hopes to contribute towards climate-neutral housing without financially burdening the housing industry and tenants.

FOR REBUILDING – INTERNATIONAL DEVELOPMENT AID

Since 2010 LEG has been sponsoring sustainable projects abroad together with DESWOS – Deutsche Entwicklungshilfe für soziales Wohnungs- und Siedlungswesen. In November 2013 parts of the Philippines were demolished by Typhoon Haiyan. Since then, LEG has been funding the reconstruction of the Tanauan community on the island of Leyte with a total donation of EUR 51,000. Using this money, 13 new houses were built as part of a larger project of 124 houses in total. In addition to the housebuilding project, this also improved families' economic situations.

FOR EMPLOYEES – HEALTH MANAGEMENT AND CONTINUED PROFESSIONAL DEVELOPMENT

The goal of health management is to promote the health and well-being of the employees both at home and at work.

LEG continued to expand its health management in 2016 as well. Employees received offers to get more physically active during their lunch breaks. An external service provider arranged fresh fruit for employees every week during the winter months.

The external service provider pme Familienservice helps employees to achieve a better work-life balance. For example, it offers childcare in case of emergencies. Familienservice also provides advice for all life situations and crises, and on issues such as homecare and eldercare.

Technical, social and economic change demands lifelong learning. Qualified employees represent a competitive edge and strengthen the company's position on the market. LEG attaches great importance to continued professional development and offers its employees a comprehensive training portfolio. This includes both technical development, such as the Caretaker Academy that was specially developed with EBZ Business School in Bochum to train caretakers, and seminars on work-life balance.

FOR SOCIETY – REGISTRATION AS A STEM CELL DONOR

In 2016 LEG offered all its employees the opportunity to register voluntarily with DKMS as a potential stem cell donor in the context of company typing. The international, non-profit organisation is committed to saving the lives of leukaemia patients. Around 60 LEG employees who had not previously been typed or registered volunteered to be entered in the DKMS database as potential stem cell donors.

SEPARATE FINANCIAL STATEMENTS OF LEG IMMOBILIEN AG

LEG IMMOBILIEN AG

As the managing holding company of the LEG Group, LEG Immobilien AG, based in Dusseldorf, performs controlling activities and administrative services for the LEG Group.

As at the balance sheet date of 31 December 2016, the separate entity company is a large corporation within the meaning of section 267 of the Handelsgesetzbuch (HGB – German Commercial Code). Since applying for a stock market listing in December 2012, LEG Immobilien AG has been considered a publicly traded company in accordance with section 264d HGB and is subject to section 267(3) HGB.

On entry in the commercial register on 11 January 2013, LEG Immobilien GmbH underwent a change of legal form and was renamed LEG Immobilien AG. LEG Immobilien AG went public on 1 February 2013 with the initial listing of its shares on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

HGB ANNUAL FINANCIAL STATEMENTS FOR 2016

Net retained profits

The separate financial statements of LEG Immobilien AG reported net retained profits of EUR 193.0 million as at 31 December 2016. This includes a net loss for the year of EUR 13.6 million, a withdrawal from capital reserves of EUR 200.0 million and a profit carryforward of EUR 6.6 million, which resulted from the net retained profits for 2015 (EUR 148.5 million) after a distribution of EUR 141.9 million in the 2016 financial year.

Balance sheet

The changes in financial assets essentially result from a share purchase. On 12 April 2016 LEG Immobilien AG signed an agreement to acquire a portfolio of around 1,100 apartments by way of a share purchase.

Receivables predominantly consist of receivables from affiliated companies (EUR 142.1 million) and trade receivables in connection with EnergieServicePlus GmbH (EUR 3.0 million).

Prepaid expenses of EUR 28.2 million (previous year: EUR 34.5 million), predominantly consist of a discount that results from the difference between the issue proceeds and the liability for the convertible bond recognised at the settlement amount and that will be reversed as scheduled during a 7.2 year period.

T10 – Balance sheet separate financial statements

€ million	**31.12.2016**	*31.12.2015*	*Change*
Financial assets	1,089.8	1,057.3	32.5
Receivables	145.2	286.1	–140.9
Cash and cash equivalents	3.6	12.7	–9.1
Prepaid expenses	28.2	34.5	–6.3
TOTAL ASSETS	**1,266.8**	**1,390.6**	**–123.8**
Equity	902.5	1,024.1	–121.9
Provisions	50.2	50.8	–0.3
Liabilities	314.1	315.7	–1.6
TOTAL EQUITY AND LIABILITIES	**1,266.8**	**1,390.6**	**–123.8**

The equity and liabilities side of the balance sheet essentially consists of equity of EUR 902.5 million, liabilities of EUR 314.1 million and provisions of EUR 50.2 million.

As at 31 December 2016 the equity of LEG Immobilien AG consists of the subscribed capital of EUR 63.2 million, capital reserves of EUR 614.6 million, revenue reserves of EUR 31.7 million and net retained profits of EUR 193.0 million.

The provisions are primarily defined by a provision for the conversion right in the amount of EUR 45.6 million.

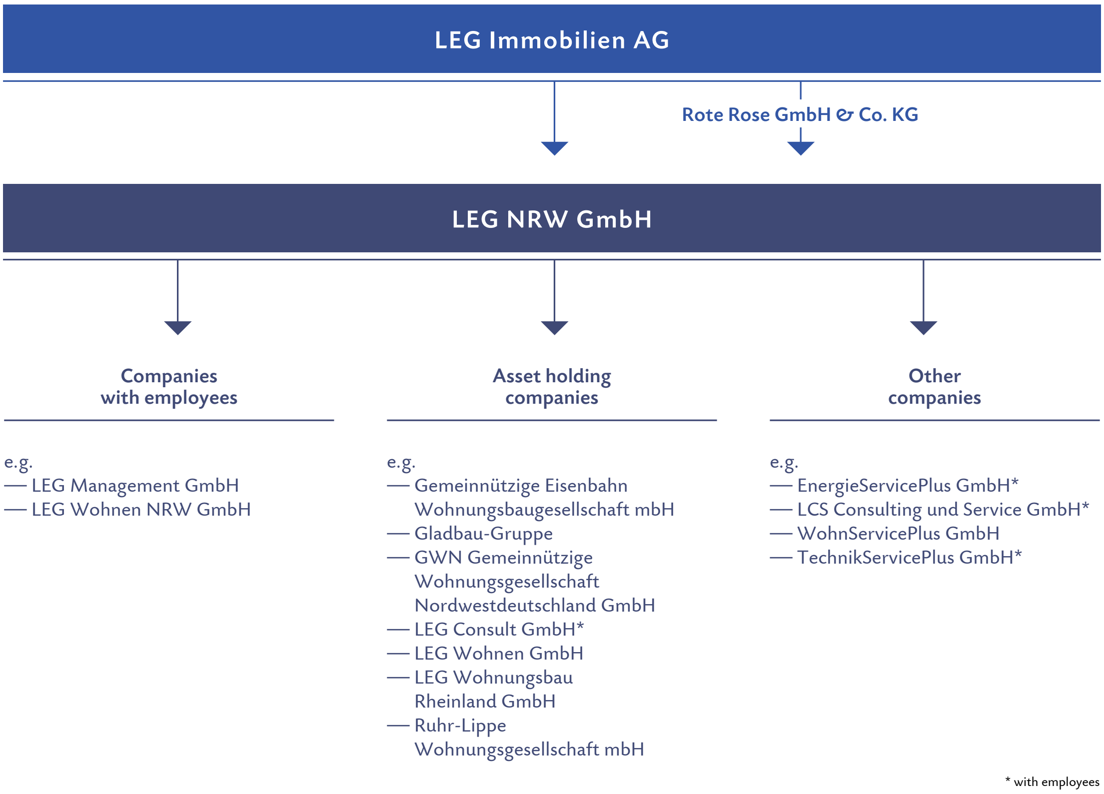
Financial statements

The full HGB annual financial statements of LEG Immobilien AG, with an unqualified audit opinion from the auditor, are disclosed in the electronic Federal Gazette. They can be requested from LEG Immobilien AG as a special print and are published on the website of LEG Immobilien AG.

Chapter

Management report

F4 – LEG Group structure



BASIC INFORMATION ON 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

LEG Immobilien AG is one of the leading owners and managers of residential property in Germany and the market leader in the NRW metropolitan region. Its portfolio comprises around 128,000 residential units at approximately 170 locations and is strategically geared towards the affordable rental segment in the NRW region. LEG's core business is the management and development of its own portfolio and the focused expansion of the portfolio through acquisitions with strong synergy potential. The business model is supplemented by the targeted development of innovative value-added services.

Thanks to its focused business model, LEG benefits to a particular degree from the positive fundamental data of the NRW region. The most densely populated federal state and Germany's economic heavyweight is also one of Europe's largest conurbations and a core region for immigration to Germany. This creates high demand for affordable living space, particularly as a result of the rapidly growing number of one-to-two-person households. LEG's product is precisely tailored to this need. At the same time, the regional focus of its portfolio gives LEG a sustainable competitive edge in terms of property management, operating efficiency and market knowledge.

LEG's business model is geared towards growth and customer focus, and thereby applies a sustainable, value-oriented approach that reconciles shareholder and tenant interests.

LEG's business model and the company's growth are ensured by a solid balance sheet and a favourable, secure, long-term financing structure in the interests of shareholders, tenants, employees and business partners. A low LTV of 44.9%, an average remaining term on loans of around 11 years and average financing costs of 2.04% document LEG's defensive risk profile and its strong position on the financing market.

Organic growth

LEG's diversified property portfolio has consistently achieved rental growth in excess of the market average in recent years (2.4% per year since 2011). Similar rental growth of 2.5% was achieved in 2016. At the same time, the vacancy rate on a like-for-like basis remained at a low level of recently 2.9%. These results were achieved on the basis of efficient and targeted capital expenditure with investments of around EUR 18 per square metre in the 2016 financial year. The key performance indicators reflect LEG's management expertise, the quality of its property portfolio and the attractiveness of its markets.

A further positive rental development is expected in the coming years. LEG's organic rental growth is driven by several factors. In its free-financed portfolio, rent increases are possible through alignments with rent tables, when letting properties to new tenants and when implementing modernisation measures. Value-enhancing modernisation investments are made in line with the specific market circumstances and are subject to strictly defined return criteria. Given the good market environment, investment is set to rise in the coming years. 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. Also, rent restriction will expire for some of this portfolio over the coming years. This provides the corresponding leeway for rent adjustments on properties where the rent, in some cases, is significantly below market levels.

A basic requirement for a positive development in management results is high tenant satisfaction, which is also reflected by low tenant fluctuation.

External growth and portfolio optimisation

Depending on the market situation, the existing portfolio can be increased by identifying new acquisition opportunities. The focal area for acquisitions is the company's core regions in NRW, where the highest cost synergies can be achieved thanks to the strong presence already in place. LEG applies a selective, value-oriented acquisition strategy that is geared towards clear financial targets for increasing its operating margins and the FFO yield, and to the development of net asset value (NAV). Even in an environment that has recently become more difficult due to increased purchase price demands, LEG has stood by its strict acquisition criteria and the principle of capital discipline. Since its IPO in 2013, LEG has acquired portfolios of different sizes with around 42,000 residential units in total and attractive returns. Thanks to their fast and sustainable integration into the LEG management platform, economies of scale can be leveraged and operating margins increased.

Expansion of value-added services

The customer base of around 350,000 tenants is also the foundation for expanding services. LEG can create value-added for both its tenants and its shareholders by providing innovative services. Having successfully launched its multimedia business in cooperation with Unitymedia in 2014, LEG offers its tenants a significantly improved product range at low rates. EnergieServicePlus, a joint venture between LEG (51%) and Innogy (formerly RWE), commenced operations in January 2016 and handles the provision of all energy and energy systems for LEG's properties. In January 2017, LEG and B&O Service und Messtechnik AG began a joint venture (51% share held by LEG) for the management of minor repairs. The service business thus makes a highly positive contribution to earnings overall that is set to keep on growing. In light of this, LEG will continue to examine possibilities for cooperation and for providing new services moving ahead.

Further increase in profitability

LEG has steadily increased its profitability since its IPO. Together with rigorous cost discipline, further efficiency enhancement measures and long-term financing at favourable conditions, the dynamic growth in rent is expected to lead to strong earnings growth as well.

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 and on deviations in leading indicators.

The management system of the LEG Group continues to be built on a control concept based on performance indicators, with the planning process serving as a key instrument. This is an integrated process resulting in five-year planning consisting of the statement of comprehensive income, the statement of financial position and the statement of cash flows. The entire process is based on detailed planning specific to properties, persons and projects. As part of the forecast process, planning for the current and following financial 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 automatically 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 in a way that ensures the targeted management of individual areas. 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.

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

Furthermore, other financial performance indicators, such as the breakdown of the financing structure, are also subject to special monitoring, and there is regular benchmarking against the corresponding figures for competitors.

In the function “net rental and lease income”, LEG focuses in particular on further improving the performance indicators in its operating business. Key indicators include rent 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 function “administrative and other expenses” primarily consists of the central divisions of the LEG Group that perform general Group functions. Detailed budgets for the individual cost positions are discussed with the respective cost centre managers. Respective targets are agreed and compliance with them is monitored on a regular basis.

There are further key figures and non-financial key performance indicators that are not part of the Group management but are subject to monitoring on a regular basis.

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

The nature of the industry means that debt service plays an important role in company management on account of the importance of the liquidity and earnings situation. The 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

Germany posts further economic growth

The economic upturn in Germany continued in 2016. As in previous years, domestic demand was the key growth driver. This was boosted by government consumption, marked by chiefly high expenditure on accommodating and integrating refugees, as well as private consumption, which benefited from rising incomes and low energy costs. Further economic impetus stemmed from construction investment, whereas investment in equipment was not stimulated, despite the generally favourable financing situation. In the first half of the year, foreign trade made a major contribution to growth in real gross domestic product (GDP), although exports slowed down significantly in the third quarter. Overall, GDP rose by 1.9% year-on-year in 2016 according to the German Federal Statistical Office. Germany thus posted slightly stronger growth than the euro zone, where GDP was up by 1.7% according to the European Commission.

For 2017, the Bundesbank expects more moderate GDP growth of 1.5%, as the general situation for private consumption is likely to deteriorate slightly. Employment is likely to tail off due to lower migration, and rising energy prices are expected to curb purchasing power. These effects may not be fully offset even by foreign trade, for which the conditions are likely to improve. As global trade recovers, exports are expected to gradually pick up again, resulting in a further increase in investing activities. For the euro zone, the European Commission also forecasts a 1.5% rise in GDP in 2017. The slight decrease compared with the previous year is likely to be mainly due to lower growth in government and private consumption as well as investment.

In 2016, employment in Germany reached its highest level since reunification. According to calculations by the German Federal Statistical Office, on average for the year, the number of people in work rose by 1% to around 43.4 million. Negative demographic effects were offset by increased employment of the German population as well as migration of foreign workers. The Bundesbank estimates that net migration in 2016 amounted to 500,000 people, including 60,000 asylum seekers. However, employment-related migration from Central and Eastern European countries passed its peak some time ago, while refugees are only gradually being integrated in the employment market. The unemployment rate in Germany has continued to fall. It averaged 6.1% in 2016, down 30 basis points on the previous year. For 2017, the Bundesbank expects a further decrease to 5.9%. The employment market in North Rhine-Westphalia also shows a positive trend. At the end of December 2016, the unemployment rate stood at 7.4% compared with 7.7% at the end of the previous year.

Incomes of private households grew further in 2016 as a result of rising employment as well as negotiated pay adjustments and pension increases. According to Bundesbank calculations, gross wages climbed by 2.4%, significantly outstripping the low inflation rate (HICP consumer price index) of 0.3%. Gross wages are expected to rise by 2.4% once again in 2017. Rising prices are also forecast as a result of higher wages. Combined with further rises in energy costs, this is likely to cause a 1.4% increase in the inflation rate.

Overall, the general economic situation remains conducive to housing demand in Germany, and therefore also beneficial to LEG's business model.

NRW RESIDENTIAL MARKET

Demand pressure causing rents and purchase prices to rise significantly

The NRW residential market is still characterised by a highly dynamic development in asking rents and property prices. In the period from October 2015 to September 2016, asking rents were up comprehensively in all 53 cities and districts compared to the same period of the previous year. Average asking rents climbed by 3.3% from EUR 6.14 per square metre to EUR 6.34 per square metre. In the previous year rental growth had been only 1%[1]. Prices for owner-occupied apartments and apartment buildings in particular continued to rise significantly. Driven by persistently low interest rates on the capital markets and the attractiveness of residential property as an asset class, purchase prices in NRW rose by an average of 5.7% (owner-occupied apartments) and 9.4% (apartment buildings) year-on-year[2].

The demand for housing and thus the appeal of North Rhine-Westphalia is growing all the time. According to IT.NRW, the population as at 31 December 2015 increased by around 227,000 as against the previous year to around 17.87 million [3]. This is the largest increase since 1990 [4], and is mainly due to the 264,000 net cases of immigration [5].

Demand pressure is becoming particularly visible when re-letting properties. This phenomenon is particularly affecting what are known as "swarm cities". The research and consulting company empirica-systeme has analysed the population gains of German cities and found that, in addition to economic factors, soft factors such as cultural and recreational infrastructure are crucial for young people when choosing where to live. This can be seen in university cities especially [6]. In North Rhine-Westphalia, Cologne, Dusseldorf, Bonn and Münster were identified as "swarm cities".

Rent development

Momentum in the development of average asking rents in NRW has risen significantly with an increase of 3.3%. Higher asking rents (median values) than in the same period of the previous year were recorded in all 53 cities and districts. Increases in asking rents were particularly high in the Aachen city region (up 7.2% to EUR 7.40) and the major Ruhr area cities of Dortmund (4.5%), Essen (4.7%) and Bochum (5.3%). There were minor increases for the Märkisch district (1.1%) and Hochsauerlandkreis (1.2%). Höxter was the only district where average asking rents rose by less than 1%.

Developments varied in the most attractive residential market regions. While Dusseldorf enjoyed a strong increase to EUR 9.57 (up 4.0%), price momentum slowed slightly in Cologne (up 1.9%) and Bonn (up 1.8%). Nonetheless, Cologne reached the EUR 10 threshold for the first time, thereby making it the most expensive housing market in North Rhine-Westphalia.

Price trends were highly positive outside the conurbations and the attractive large cities as well. In East Westphalia, the Bielefeld, Paderborn and Gütersloh locations reported rental increases of between 4% and 5%, with the Herford district achieving growth of 5.4%. At EUR 4.50, Höxter is by far the most affordable district and the only housing market in North Rhine-Westphalia with average asking rents of less than EUR 5.

Developments are similar overall for asking rents in the low-cost segment (lowest quartile of asking rents). By far the most affordable residential market is the Höxter district at EUR 4.00 per square metre, followed by Hochsauerland district (EUR 4.50) and Hagen (EUR 4.66). The city of Remscheid and the district of Viersen reported stagnant rent in the low-cost segment. The districts of Warendorf, Mettmann and Siegen-Wittgenstein saw minor increases of less than 1%. The highest increases were observed in the city of Dortmund, in the Rhine districts of Rhein-Erft, Rhein-Sieg and Düren and in the Aachen city region.

At the end of 2015 there were 576,300 rent-restricted apartments in North Rhine-Westphalia. This figure was therefore down by 21,000 units (–3.5%) as against the previous year. Around 477,000 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% of all rented accommodation is rent-restricted [7].

The previous year's trend in figures for completed buildings has slowed somewhat. Approximately 40,700 apartments in residential and non-residential buildings were completed in 2015 – a drop of 12% [8]. Construction activity has also eased up again in the field of apartment buildings, with 18,700 units completed (–11%).

Vacancy development

As in previous years, demand for housing in NRW was characterised by immigration and the rising number of single- and two-person households. Among the immigrants were a large number of refugees and asylum seekers whose integration in the housing market will only gradually take place. The average vacancy rate in NRW – based on active vacancies (real lettable living area) – therefore remained stable as against the previous year at 3.1%, and was also on par with the national average [9].

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 already low vacancy reserve to diminish even further. The residential markets of Cologne, Dusseldorf, Bonn and above all Münster are showing indications of a housing shortage, reflected in extremely low vacancy rates in some cases. As a result of the continuing economic and cultural appeal of these cities, vacancies were reduced significantly between 2010 and 2015: Cologne from 1.6% to 1.1%, Dusseldorf from 2.3% to 1.5%, Bonn from 2.0% to 1.2% and Münster from 1.6% to 0.5% [10].

Outside the classic growth centres, the housing markets in NRW tended to be mixed. For the first time in years, vacancy rates were down significantly in the two Ruhr area cities of Gelsenkirchen and Duisburg, by 40 basis points each to well below 5%. While there were slight increases in the rural districts in the east of the state (Märkisch district, Höxter district, Minden-Lübbecke district), figures were down in Münsterland and the Rhineland as a whole.

Further price increase for owner-occupied apartments in growth centres

Average purchase prices for owner-occupied apartments were up as a result of consistently sluggish new construction activity and sustained demand pressure. The highest increase was in Dusseldorf (up 9.5%). At approximately EUR 3,200 at this time, the state capital is the only housing market region in North Rhine-Westphalia in excess of the EUR 3,000 threshold. Just below this line are Cologne (EUR 2,968) and Münster (EUR 2,945).

The top four locations in the apartment building segment – which saw substantial price increases of between 16.6% (Dusseldorf) and 26.4% (Münster) – are closer together: median prices are between EUR 2,274 (Bonn) and EUR 2,405 (Münster) per square metre. In line with the level of asking rents, purchase prices in the apartment building segment were the lowest in the district of Höxter and the Ruhr area cities of Hagen, Herne and Gelsenkirchen at less than EUR 700 per square metre. However, with the exception of Hagen (–2.6%), purchase prices on these residential markets also rose by double-digit rates.

[1] cf. empirica systems market database
[2] cf. empirica systems market database
[3] cf. IT NRW
[4] cf. NRW.Bank: 2016 NRW Housing Market Report
[5] cf. German Federal Statistical Office
[6] cf. NRW.Bank: 2016 NRW Housing Market Report
[7] cf. NRW.Bank: Rent-restricted Housing Portfolio NRW 2015
[8] cf. NRW.Bank: 2015 NRW Housing Market Report
[9] cf. CBRE-empirica Vacancy Index 2015
[10] cf. CBRE-empirica Vacancy Index 2015

TRANSACTION MARKET

Residential portfolios were again among the preferred investment targets on the German property market in 2016. According to the property specialist CBRE, the total transaction volume for residential packages and complexes upwards of 50 units amounted to around EUR 13.7 billion, and was therefore slightly above the average for the past five years. As expected, the high volume of the record year of 2015 (EUR 23.3 billion) – itself characterised by major transactions – was not matched. The share of international investors climbed from 13% in 2015 to currently around 30%, thus confirming the consistently strong interest in the German residential property market.

Property portfolios accounted for around 75% of the transaction volume (EUR 10.2 billion) in 2016. Above all, buyers included listed property companies and institutional investors. The average purchase price for existing properties was EUR 1,245 per square metre. As the high demand on the residential investment market again met with a low supply of existing properties, investment in project developments increased for the fourth year in a row, representing around 25% of the transaction volume at EUR 3.5 billion.

While the number of registered portfolio transactions increased to 272 (after 263 in the previous year), the number of apartments sold declined significantly by 56% to around 148,000 units, highlighting the shortage of supply on the market. As a result of this and the shift to new building developments, there was a significant increase in prices compared to the previous year. The average purchase price per square metre climbed by 35% in total to EUR 1,490. The purchase price per residential unit also increased by 35% to an average of EUR 92,810.

In North Rhine-Westphalia, approximately 18,000 residential units were sold for around EUR 1.6 billion in the context of portfolio transactions in 2016, after approximately 90,000 residential units for around EUR 5.1 billion in 2015. LEG acquired a total of around 2,000 residential units. At the same time, LEG was also selling on the market, and disposed of a total of around 4,260 residential units in apartment building packages and share deals.

CBRE expects that the German residential property market will be characterised by advancing portfolio optimisation by major holders and the shortage of supply in conurbations in 2017. As a result, the shift to alternative locations outside the top picks and to project developments is likely to drive the investment volume for residential portfolios. A rising percentage of international investors is also expected. According to CBRE estimates, the transaction volume in 2017 is set to be roughly on par with the previous year's level and the average for the last five years.

EMPLOYEES

LEG likes to offer its employees “More than a roof over your job”. A large number of activities in the areas of training, continuing professional development and LEG health management were therefore implemented in the 2016 financial year as well. The central concern is to develop each employee individually and to support an attractive, pro-performance culture of cooperation. One particular focus in 2016 was on training employees as part of the “Reorganisation of Operations 2016+”.

Number of employees

LEG had a total of 990 employees (2015: 970), including 38 trainees (2015: 38) as at the end of 2016. Adjusted for members of the Management Board, managing directors and trainees, the number of full-time equivalents (FTEs) was 837.8 (2015: 811.8 FTE).

Continuing professional development

877 LEG employees took part in at least one continuing professional development event in 2016. With more than 3,000 seminar days, each employee attended an average of 3.5 seminar days. This marks an increase of 75% over 2015. This increase is essentially due to training as part of the "Reorganisation of Operations 2016+".

LEG's training costs amounted to around EUR 695,691 in the year under review, corresponding to around EUR 830 per employee.

Health management

The already established services offered by LEG Familienservice were again a key component of health management in 2016, with options such as short-term emergency childcare and advice on difficult situations at home or at work. The same events as in previous years, "active lunch break", "fruit offer" and the corporate run in Dusseldorf and Dortmund, were also still offered as part of the company's health management. A pilot project for giving up smoking was offered for the first time, and there was the chance to be registered and typed as a bone marrow donor with DKMS.

Trainees

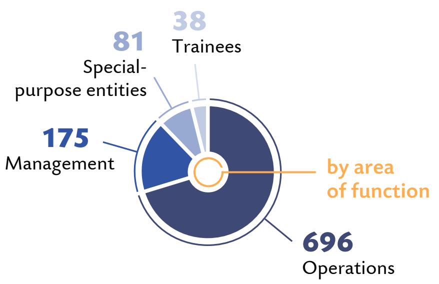
38 young people were being trained at LEG as at 31 December 2016, 37 of whom as real estate agents and one as an IT specialist.

Our trainees actively help to shape their training. To foster independence and a sense of responsibility, they are included in exciting projects right from the start. Trainees have long-term prospects at LEG. LEG again concluded contracts with all trainees who expressed a wish to join the company in 2016.

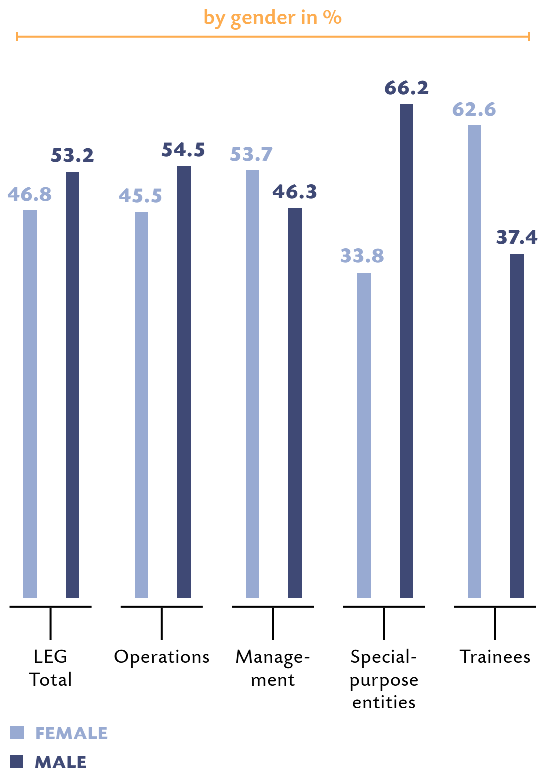
T11 – LEG employees as of 31 December

	2016	*2015*
TOTAL	**990**	**970**
male in %	53	52
female in %	47	48
FTEs (excluding Management Board members and trainees)	838	812
Fluctuation rate in %	6.9	4.8
Absence rate in %	4.5	3.8
Average age in years	45.3	44.1

F5 – Employee distribution 1



F6 – Employee distribution 2



CURRENT BUSINESS ACTIVITIES

LEG further accelerated its growth trajectory in the 2016 financial year. The main financial performance indicator for Group management, FFO I, rose by 30.2% from EUR 206.0 million to EUR 268.3 million in the 2016 financial year. The key drivers for the increase in earnings were a positive development in existing rents across all sub-markets, an expansion in the residential portfolio of around 18% as a result of the closing of acquisitions and a further reduction in the already very low average financing costs. There was also growth in income from tenant-oriented services.

As at 31 December 2016, LEG Immobilien AG's property portfolio consisted of 128,488 apartments, 1,148 commercial units and 31,640 garages and parking spaces. The table below shows the key portfolio data as compared to the previous year. *Table* **T12**

The change in the portfolio mainly related to the earlier acquisition of six portfolios with around 22,130 residential units in total that were transferred in 2016. In the 2016 financial year, a total of 4,260 units were disposed of, of which 3,130 were already transferred in 2016. For 1,130 residential units, the transfer of ownership took place as at 1 January 2017. The disposals were mostly sub-portfolios from acquisitions that did not fit LEG's portfolio structure and remainders from former tenant privatisation activities.

The acquisition portfolios transferred to the LEG portfolio in the 2016 financial year are located in LEG's core markets and thus offer correspondingly high synergy potential. In addition to achieving cost synergies through economies of scale, there is additional potential for increasing value by reducing vacancies and adjusting rents in line with the market level.

Thanks to proven and standardised integration processes, the portfolios acquired were quickly and successfully integrated into the Group's scalable systems and processes so that they already made a significant contribution to increasing operating earnings on a pro rata basis in the 2016 financial year.

The significant operating value drivers and key performance indicators developed as follows:

Like-for-like monthly rent per square metre, a key driver for organic growth, rose by 2.5% year-on-year. In absolute terms, the rent level was EUR 5.34 per square metre as at 31 December 2016 on a like-for-like basis. There was an increase of 3.4% in the free-financed segment. All market segments contributed to this positive development. Rents for rent-restricted apartments, which still account for around 29% of the total portfolio as at the end of the year, climbed by 0.5% on a like-for-like basis to EUR 4.69 in the reporting year.

T12 – Development of the real estate portfolio

Key figure	*Usage*	**31.12.2016** [1]	*31.12.2015*	*Change*	*%*
Number residential units	Residential	128,488	108,916	19,572	18.0
	Commercial	1,148	1,053	95	9.0
	TOTAL RESIDENTIAL AND COMMERCIAL	**129,636**	**109,969**	**19,667**	**17.9**
	Parking	31,640	26,840	4,800	17.9
	TOTAL	**161,276**	**136,809**	**24,467**	**17.9**
Lettable area in sqm	Residential	8,211,106	6,978,972	1,232,134	17.7
	Commercial	193,542	183,440	10,103	5.5
	TOTAL RESIDENTIAL AND COMMERCIAL	**8,404,648**	**7,162,412**	**1,242,236**	**17.3**
In-place rent in €/sqm	Residential	5.28	5.21	0.08	1.4
	Residential (l-f-l)	5.34	5.21	0.13	2.5
	Commercial	7.18	7.32	–0.15	–2.0
	Commercial (l-f-l)	7.22	7.09	0.14	1.9
	TOTAL RESIDENTIAL AND COMMERCIAL	**5.32**	**5.26**	**0.06**	**1.2**
Number of vacancies	Residential	4,280	2,799	1,481	52.9
	Commercial	221	189	32	16.9
	TOTAL RESIDENTIAL AND COMMERCIAL	**4,501**	**2,988**	**1,513**	**50.6**
EPRA vacancy in %	Residential	3.3	2.6	0.8	29.5
	Residential (l-f-l)	2.9	2.5	0.4	12.5
	Commercial	12.1	13.0	–0.9	–6.7
	TOTAL RESIDENTIAL AND COMMERCIAL	**3.5**	2.9	0.6	20.2

[1] Figures include 575 residential units disposed of as at 31 December 2016

The EPRA vacancy rate for all residential units of the LEG Group including the properties acquired was 3.3% as at the end of the 2016 financial year. The vacancy rate, on a like-for-like basis, was 2.9% and still on a low level. The previous year's very low like-for-like vacancy rate of 2.5% was not entirely achieved owing to temporary effects from an internal reorganisation of management areas. The goal of the successfully completed reorganisation is to further enhance the company's efficiency and to be able to respond even more strongly and specifically to customer requirements moving ahead. In addition to a central customer service for the efficient and standardised processing of customer requests, local rental and customer support teams were set up at eight branches to take care of the concerns of existing tenants and the acquisition of new customers. With rising standardisation of new processes, positive effects on renting business are expected for 2017. In addition to the optimisation of the organisational structure and internal processes, a positive market development and individual concepts for residential units with higher vacancy rates contributed to the good overall rental results.

To maintain and improve its portfolio, the LEG Group invested in its portfolio selectively and on a targeted basis in the past financial year. Investment in the portfolio further increased by 31.0% from EUR 114.2 million in the previous year to EUR 149.6 million. Average investment per square metre of living and usable area amounted to EUR 18.2. Investment therefore increased by EUR 2.1 per square metre as against the previous year, and was significantly higher than the amount of EUR 12.50 per square metre stipulated in the Social Charter. LEG is thereby holding itself to its own high standards as a long-term property manager. The capitalisation rate and therefore the share of value-enhancing measures was 51.8% (previous year: 52.4%). In the years ahead as well, the Group's investment propensity will not diminish, and it will also provide additional investment budgets of around EUR 80 million per year (EUR 40 million for the 2017 financial year, EUR 80 million in each of the 2018 and 2019 financial years). Investment per square metre of residential and commercial space will then be within a range of around EUR 24 to EUR 30.

LEG's leasing business was supplemented by an additional range of tenant-oriented services in the reporting year. LEG has entered the repairs management business by establishing TechnikServicePlus GmbH (LEG: 51%), in December 2016 thereby safeguarding tradesman capacity on a market where resources are scarce. This will allow it to optimise repair processes, which in turn will benefit tenants and shareholders alike. A positive contribution to earnings is expected from the new service subsidiary from as early as 2017. Last year Energie-ServicePlus GmbH was founded with Innogy (then RWE) as a strategic partner. Its multimedia range and various offerings relating to old-age accommodation complete the spectrum of tenant-oriented services. These services are already having a positive effect on operating earnings figures in addition to a strong customer loyalty effect in the long term.

Overall, ongoing operating business proceeded in line with planning in the 2016 financial year. Moreover, the good performance of the portfolios acquired in the 2016 financial year and the previous year as well means that earnings have increased strongly and partially outperformed the goals communicated at the end of last year.

FINANCING

Refinancing of EUR 300 million and acquisition financing

Around EUR 300 million in existing financing maturing by 2019 was refinanced in the 2016 financial year. This move reduced future interest expenses by around EUR 5 million per year and significantly extended the terms of loan agreements. The costs associated with this restructuring, in particular for closing out interest rate derivatives, will fully amortise within around three years. Furthermore, long-term financing agreements for EUR 430 million were concluded for the acquisition of residential portfolios. Moreover, a framework loan agreement for the interim financing of acquisition portfolios of EUR 100 million was renewed for a further two years. A master agreement with the European Investment Bank (EIB) of EUR 100 million was concluded in December 2016 for the implementation of energy efficiency measures.

Balanced core bank structure

Around 84.4% of the LEG Group's total loan liabilities relate to bank loans and 15.6% to subsidised loans from NRW.Bank. The loan liabilities with banks are mainly distributed among 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. In line with 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 one financing partner. The LEG Group's largest creditor after NRW.Bank has a share of less than 15% of the total loan portfolio.

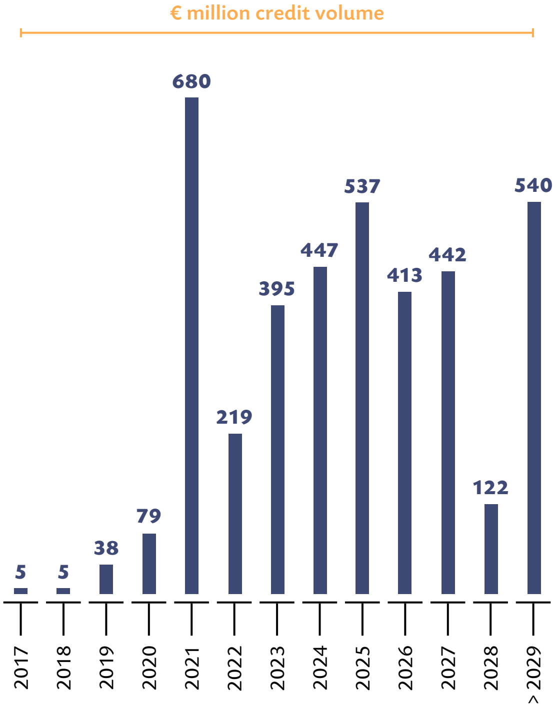
Balanced, long-term maturity profile

In line with the long-term nature of its basic business and in order to ensure its defensive risk profile, LEG has established a balanced, long-term financing structure. Financing is arranged on the basis of medium- and long-term agreements with terms of up to twelve years. Taking into account the long-term subsidised loans, the financing portfolio as a whole has an average maturity of approximately 11.0 years. The goal in managing contract terms is that no more than 20% of total liabilities fall due within one year. 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 strategic orientation of the company, are around 93% 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 rate derivatives can be used only to hedge interest rate risks. Thus, the company does not maintain open or speculative items. Given the long-term interest rate hedges in place, no significant interest rate risks are anticipated in the medium term. As at the end of the reporting period, the average financing costs including the convertible bond amounted to 2.04%.

F7 – Maturity profile



Covenants

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

- loan-to-value (LTV; ratio of the loan amount 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 amount to net rental income)

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

- LTV 60.0% – 82.5%
- DSCR 110.0% – 465%
- DRR 700.0% – 1,330%

Furthermore, individual loan agreements contain stipulations regarding rentals.

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 foreseeable at present or in the future.

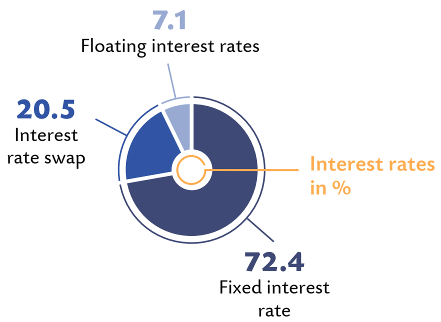
Confirmation of credit quality and basis for further diversification of financing

Since May 2015 LEG has had a long-term issuer rating, and therefore a public and objective assessment of its credit quality, from the rating agency Moody's. Its Baa1 investment grade rating was reconfirmed in May 2016, highlighting the strength of LEG's credit risk profile. The rating particularly reflects the strong market position, active portfolio management and long-term financing strategy of LEG Immobilien AG. Furthermore, the rating forms the basis for a possible further diversification of LEG's financing instruments.

Strengthening of equity ratio with tailored equity financing

As part of the tailored financing of its growth, LEG carried out one capital increase against non-cash contributions in the past year. In the context of this capital increase, 418,397 new shares were created on 30 May 2016 with entry in the commercial register as consideration for a portfolio of around 1,100 apartments and an agreed property value of EUR 53 million. The targeted strengthening of the equity ratio in the form of a capital increase against non-cash contributions again highlights LEG's strategy of high capital discipline with the precisely tailored and value-adding financing of portfolio acquisitions. As of 31 December 2016, the equity ratio was 40.7%.

F8 – Interest hedging instruments



SOCIAL CHARTER

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

As part of the privatisation of the LEG Group and sale to Lancaster GmbH & Co. KG (now LEG Immobilien AG), and Rote Rose GmbH & Co. KG 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 protection of the tenants, employees and properties of the entire LEG Group at the date on which the social charter was concluded. Full compliance must be maintained with the protection provisions, which are enforceable by penalty, until the expiry of the social charter in the 2018 financial year.

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 protection provisions 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. As in the past years, in the most recent 2015 audit period, full compliance was confirmed by the auditing company with an unqualified opinion.

To date, no objections have been raised by the then seller. The social charter report for the 2016 financial year will be prepared in the 2017 financial year.

The text of the regulations and provisions can be found on the company's homepage at *www.leg.ag*.

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

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

In the context of the privatisation of the Federal Railway Assets (Bundeseisenbahnvermögen) social charters were agreed for GWN and GEWG. In accordance with the share purchase and transfer agreement for the shares in GWN or GEWG of 14 December 2001 or 9 October 2014, aforementioned social charters were compulsory concluded with the former purchasers. The social charters had a term of ten years.

Regardless of the social charters, which have since expired, both corporations must continue to be operated as a social institution of the German federal railways in accordance with principles stipulated by Bundeseisenbahnvermögen for as long as authorised persons (railway workers) live in these properties and former GWN or GEWG employees who were employed by the company when the social charters were agreed are still in employment.

In 2001, GWN has been acquired by the LEG Group. GEWG was acquired in October 2014 as part of the Vitus Group acquisition. The residential portfolio of both companies still serves primarily the purpose of providing adequate and affordable housing for railway workers and their families. The company complies with these obligations. This is also confirmed annually in an audit report by an auditor.

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. These properties are subject to the social charter protection of GAGFAH, which remained 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. Qualified business processes ensure compliance.

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 seven years now. In the context of the privatisation of LEG, the formation of the foundation had been agreed in the acquisition and takeover agreement of 29 August 2008.

The former shareholders of LEG NRW GmbH 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 80 projects or tenants in need of assistance received funding of EUR 96,217.65 in 2016. EUR 26,217.65 of these projects/subsidies were of a benevolent nature and EUR 70,000.00 of a charitable nature.

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

DIVIDEND

The development of FFO I is the key factor influencing the amount of the dividend. LEG plans to distribute 65% of its FFO I to shareholders as a dividend on a sustainable basis. The retained portion of FFO I is used for value-adding investment in the portfolio, the repayment of loans and for acquisitions, and thus for further increases in shareholder value.

The Management Board and the Supervisory Board will propose a dividend of EUR 2.76 per share at the Annual General Meeting for the past 2016 financial year. This corresponds to a distribution ratio of around 65% of FFO I and a dividend yield of 3.7% based on the closing price of LEG shares at the end of 2016.

ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

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

Results of operations

Aggregate income statement

The condensed income statement is as follows:

T 13 – Condensed income statement

€ million	*Q4 2016*	*Q4 2015*	**01.01.– 31.12.2016**	*01.01.– 31.12.2015*
Net rental and lease income	82.2	78.1	373.1	320.5
Net income from the disposal of investment properties	–0.7	2.9	7.6	3.6
Net income from the remeasurement of investment properties	607.2	285.5	616.6	285.5
Net income from the disposal of real estate inventory	–0.9	–0.7	–2.4	–1.2
Net income from other services	1.4	0.8	3.7	0.9
Administrative and other expenses	–12.2	–25.4	–78.2	–58.1
Other income	9.8	0.3	16.4	0.9
OPERATING EARNINGS	**686.8**	**341.5**	**936.8**	**552.1**
Interest income	0.9	0.0	0.9	0.6
Interest expenses	–87.6	–35.6	–177.2	–181.5
Net income from investment securities and other equity investments	0.0	1.6	2.2	4.3
Net income from associates	0.0	0.0	0.3	0.0
Net income from the fair value measurement of derivatives	48.3	2.1	16.6	–75.8
NET FINANCE EARNINGS	**–38.4**	**–31.9**	**–157.2**	**–252.4**
EARNINGS BEFORE INCOME TAXES	**648.4**	**309.6**	**779.6**	**299.7**
Income taxes	**–155.5**	**–70.0**	**–200.4**	**–82.0**
NET PROFIT OR LOSS FOR THE PERIOD	**492.9**	**239.6**	**579.2**	**217.7**

Operating earnings increased considerably in the past financial year. Adjusted EBITDA, which includes the adjustment for the non-cash earnings effect of the portfolio's remeasurement, climbed from EUR 293.7 million in the previous year to EUR 355.7 million.

The key drivers for the increase in earnings were higher income resulting from acquisitions and organic rent increases, combined with enhanced efficiency and the expansion of tenant-oriented services. On the basis of acquisitions and organic growth, net rental and lease income rose by EUR 52.6 million (16.4 %).

Portfolio streamlining resulted in profits of EUR 25.1 million being realised. This includes net income from the disposal of investment property (EUR 7.6 million) and EUR 9.7 million from the revaluation of the contractually agreed sales value (reported under net income from the remeasurement of investment property). An additional EUR 7.8 million relate to book gains from the disposal of other net assets of the portfolios disposed of (reported as other income).

The acquisition of a property portfolio with 13,570 units as at 1 April 2016 resulted in income on first-time consolidation of EUR 7.7 million (reported as other income).

Administrative expenses were impacted by the implementation of efficiency enhancement measures which resulted in a decline of current administrative expenses from EUR −36.7 million by 12.5% to EUR −32.1 million. At the same time, in expenses there were non-recurring effects resulting from recognising real estate transfer tax from two acquisitions.

The improvement in net finance costs from EUR −252.4 million in the previous year to EUR −157.2 million in the reporting period is predominantly due to the higher result from change in the fair value of derivatives from the convertible bond (up by EUR 92.5 million from EUR −74.0 million in the previous year to EUR 18.5 million in the reporting period). The expenses for refinancing in the financial year negatively impacted net finance costs by EUR −66 million, thereof EUR −60 million from additional loan amortisation and EUR −6 million from prepayment penalties and SWAP redemption fees (2015: EUR 56.2 million). Despite a higher financing volume, cash interest expenses were reduced by EUR 4.3 million year-on-year.

The key factor impacting results is net income from the remeasurement of investment property. In the reporting period, the result was EUR 616.6 million, considerably up on the previous-year figure of EUR 285.5 million.

For the financial year, a lower current income tax of EUR −5.0 million is anticipated.

With a slightly lower tax rate, a considerably higher net profit for the period of EUR 579.2 million was generated (previous year: EUR 217.7 million).

Net rental and lease income

Net rental and lease income breaks down as follows in 2016: *Table* **T14**

In the past financial year, the LEG Group increased its net rental and lease income by EUR 52.6 million (16.4%) compared to the previous year. The main drivers in this development were the EUR 75.6 million (17.3%) rise in net cold rent and, offsetting this, the EUR 17.6 million (32.4%) higher maintenance expenses.

At 12.8%, rental-related employee benefits developed at a slower rate than net cold rent.

T14 – Net rental and lease income

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Net cold rent	130.4	110.8	511.7	436.1
Profit from operating expenses	−0.7	1.8	−1.6	1.2
Maintenance	−27.1	−17.9	−72.0	−54.4
Employee benefits	−12.0	−10.0	−42.2	−37.4
Allowances on rent receivables	−1.7	−1.3	−7.2	−6.0
Depreciation and amortisation expenses	−1.4	−1.3	−5.3	−4.6
Other	−5.3	−4.0	−10.3	−14.4
NET RENTAL AND LEASE INCOME	**82.2**	**78.1**	**373.1**	**320.5**
NET OPERATING INCOME – MARGIN (IN %)	**63.0**	**70.5**	**72.9**	**73.5**
Non-recurring project costs – rental and lease	1.8	0.5	2.7	2.3
Depreciation	1.4	1.3	5.3	4.6
ADJUSTED NET RENTAL AND LEASE INCOME	**85.4**	**79.9**	**381.1**	**327.4**
ADJUSTED NET OPERATING INCOME – MARGIN (IN %)	**65.5**	**72.1**	**74.5**	**75.1**

The EPRA vacancy rate, which is a ratio of rent lost due to vacancy to potential rent in the event of full occupancy, was 2.9% on a like-for-like basis as at 31 December 2016.

T15 – EPRA vacancy rate

€ million	31.12.2016	31.12.2015
Rental value of vacant space – like-for-like	12.7	10.7
Rental value of vacant space – total	17.2	11.1
Rental value of the whole portfolio – like-for-like	445.5	420.9
Rental value of the whole portfolio – total	520.0	435.5
EPRA VACANCY RATE – LIKE-FOR-LIKE (IN %)	**2.9**	**2.5**
EPRA VACANCY RATE – TOTAL (IN %)	**3.3**	**2.6**

The LEG Group invested selectively in its assets in the reporting period. Investing activities in the period under review focused on major projects and measures aimed at facilitating the new letting of vacant apartments. With growth of EUR 30.8 million, they contributed to the EUR 35.4 million increase in total investment to EUR 149.6 million.

Newly acquired portfolios accounted for EUR 11.0 million of total investment where the economic transfer took place in 2016. *Table* **T16**

In the 2016 financial year the LEG Group invested EUR 18.2 per square metre on average. Compliance with the requirements of the social charter, which prescribe a minimum investment volume of EUR 12.50 per square metre, is assured.

The implementation of the strategic investment program which was announced in 2016 will start in the 2017 financial year. This will result in a considerable increase in the average investments. It is expected that this will also result in a higher capitalisation rate.

Net income from the disposal of investment property

Net income from the disposal of investment property is composed as follows in 2016: *Table* **T17**

Income generated from disposals of investment properties in the reporting period was EUR 46.7 million higher than in the previous year.

T16 – Maintenance and modernisation of investment properties

€ million	Q4 2016	Q4 2015	01.01.–31.12.2016	01.01.–31.12.2015
Maintenance expenses for investment properties	27.1	17.9	72.0	54.4
Capital expenditure	30.8	26.3	77.6	59.8
TOTAL INVESTMENT	**57.9**	**44.2**	**149.6**	**114.2**
Area of investment properties in million sqm	8.38	7.16	8.22	7.11
AVERAGE INVESTMENT PER SQM (€/SQM)	**6.9**	**6.2**	**18.2**	**16.1**

T17 – Net income from the disposal of investment properties

€ million	Q4 2016	Q4 2015	01.01.–31.12.2016	01.01.–31.12.2015
Income from the disposal of investment properties	22.8	45.4	159.0	112.3
Carrying amount of the disposal of investment properties	–23.2	–42.3	–150.3	–107.0
Costs of sales of investment properties sold	–0.3	–0.2	–1.1	–1.7
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–0.7**	**2.9**	**7.6**	**3.6**

In addition to the result of disposals (EUR 7.6 million) and the remeasurement of investment properties in disposal portfolios (EUR 9.7 million – reported in net income from the remeasurement of investment property), EUR 7.8 million book gains were realised from the disposal of other net assets of the portfolios disposed of (reported as other income). The income from remeasurement of investment property triggered by property disposals resulted from uplift to the contractually agreed sales value. EUR 8.2 million relate to portfolios with a signed sales agreement at the reporting date and with disposal after the reporting date.

Portfolio streamlining thus resulted in profits of EUR 25.1 million being generated in the financial year. *Table* **T18**

Net income from the remeasurement of investment property

Net income from the remeasurement of investment property amounted to EUR 616.6 million in 2016 (2015: EUR 285.5 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 8.4% (2015: 4.7%).

The average value of residential investment property (including IFRS 5 properties) was EUR 930 per sqm as at 31 December 2016 (31 December 2015: EUR 873 per sqm) including acquisitions and EUR 962 per sqm not including acquisitions.

The increase in the value of the portfolio is primarily a result of the development of in-place rents. In the current financial year this was affected by the expiring of rent control on subsidised property holdings, for which subsidised loans were repaid early on 28 February 2017. Another driver was the gradually lower discount rate.

Net income from the disposal of real estate inventory

Net income from the disposal of inventory properties was composed as follows in 2016: *Table* **T19**

The sale of the remaining properties of the former Development division continued in 2016. The remaining real estate inventory held as at 31 December 2016 amounted to EUR 2.9 million, EUR 1.5 million of which related to properties under development.

T18 – Adjusted net income from disposal of property portfolios

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Net income from the disposal of investment property	–0.7	2.9	7.6	3.6
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	0.4	–	9.7	–
Profits from the disposal of other net assets of disposed property portfolios (included in other income)	1.4	–	7.8	–
ADJUSTED NET INCOME FROM DISPOSALS	**1.1**	**2.9**	**25.1**	**3.6**

T19 – Net income from the disposal of real estate inventory

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Income from the disposal of inventory properties	0.1	0.1	1.9	1.0
Carrying amount of the real estate inventory disposed of	–0.1	–0.1	–1.2	–0.7
Cost of sales of the real estate inventory disposed of	–0.9	–0.7	–3.1	–1.5
NET INCOME FROM THE DISPOSAL OF REAL ESTATE INVENTORY	**–0.9**	**–0.7**	**–2.4**	**–1.2**

T20 – Other services

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Income from other services	3.2	2.8	10.3	8.9
Expenses in connection with other services	–1.8	–2.0	–6.6	–8.0
NET INCOME FROM OTHER SERVICES	**1.4**	**0.8**	**3.7**	**0.9**

In the previous year, the release of a EUR 1.2 million provision for a completed development project resulted in a one-time relief on earnings. Adjusted for this effect, costs of sales were stable.

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.

Thanks to the good order situation and low commodity prices, operating earnings from electricity and heat generation increased significantly in the financial year. *Table* **T20**

Administrative and other expenses

Administrative and other expenses are composed as follows: *Table* **T21**

As a result of the implementation of efficiency enhancement measures, adjusted administrative expenses were reduced by EUR 4.6 million (12.5%) year-on-year to EUR –32.1 million.

Acquisition and integration costs for the acquisition of property portfolios were key contributory factors in the EUR 24.2 million increase in project costs. In the reporting period EUR 34.4 million (2015: EUR 2.6 million) is attributable to real estate transfer tax. Due to the acquisition structure, this was recognised directly under expenses instead of being capitalised as cost.

Net finance earnings

Refinancing in the past financial year and remeasurement of derivatives for the convertible bond are the main drivers for the development in net finance costs. *Table* **T22**

Prepayment penalties for the dissolution of fixed loans (around EUR 1 million) and swap breakage fees (EUR 13.3 million, EUR 4.9 million of which in profit or loss) resulted in refinancing expenses of around EUR 14 million. The early refinancing of subsidised loans on 28 February 2017 resulted in additional expense from loan amortisation of approximately EUR 60 million. The refinancing gave rise to total additional interest expenses of around EUR 66 million (2015: EUR 56 million).

T21 – Administrative and other expenses

€ million	*Q4 2016*	*Q4 2015*	**01.01. – 31.12.2016**	*01.01. – 31.12.2015*
Other operating expenses	–5.4	–18.3	–52.6	–32.3
Employee benefits	–5.6	–6.3	–21.6	–22.7
Purchased services	–0.2	–0.2	–1.1	–1.0
Depreciation and amortisation	–1.0	–0.6	–2.9	–2.1
ADMINISTRATIVE AND OTHER EXPENSES	**–12.2**	**–25.4**	**–78.2**	**–58.1**
Depreciation and amortisation	1.0	0.6	2.9	2.1
Non-recurring project costs and extraordinary and prior-period expenses	2.8	12.6	43.2	19.1
LTIP (long-term incentive programme)	–	–	–	0.2
ADJUSTED ADMINISTRATIVE AND OTHER EXPENSES	**–8.4**	**–12.2**	**–32.1**	**–36.7**

T22 – Net finance earnings

€ million	*Q4 2016*	*Q4 2015*	**01.01. – 31.12.2016**	*01.01. – 31.12.2015*
Interest income	0.9	0.0	0.9	0.6
Interest expenses	–87.6	–35.6	–177.2	–181.5
NET INTEREST INCOME	**–86.7**	**–35.6**	**–176.3**	**–180.9**
Net income from other financial assets and other investments	0.0	1.6	2.2	4.3
Net income from associates	0.0	–0.1	0.3	0.0
Net income from the fair value measurement of derivatives	48.3	2.1	16.6	–75.8
NET FINANCE EARNINGS	**–38.4**	**–32.0**	**–157.2**	**–252.4**

The measurement of the convertible bond at amortised costs of EUR –6.6 million (previous year: EUR –6.4 million) was included in interest expenses for loan amortisation in the reporting period.

As a result of the further reduction of average interest costs, cash interest expenses fell despite higher financing volume by EUR 4.3 million year-on-year to EUR 83.2 million.

The decline in net income from other financial assets 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 2.5 million in the previous year. Provisions had already been recognised in previous years for the share of income tax arrears to be paid by the company.

The average interest rate for the entire loan portfolio declined to 2.04% (2015: 2.28%) on an average term of 11.05 years (2015: 10.80 years).

Income tax expenses

As at 31 December 2016, the current effective Group tax rate was 25.7% (previous year: 27.4%). The rise in income taxes from EUR –82.0 million in the previous year to EUR –200.4 million in the reporting period is essentially due to higher deferred tax liabilities on investment property resulting from the portfolio remeasurement.

For the 2016 financial year, a tax liability for current income taxes of EUR –5.0 million had to be accounted. In the previous year, there was a tax charge of EUR –1.6 million.

The finalisation of the purchase price allocation of two portfolio acquisitions with 3,539 units as at 1 January 2016 and 13,570 units as at 1 April 2016 resulted in the recognition of a deferred tax liability of EUR –4.5 million at the acquisition date (EUR 3.6 million of which deferred tax assets reducing goodwill and EUR –8.1 million deferred tax liabilities reducing income).

T23 – Income tax expenses

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Current tax expenses	–1.3	–0.5	–5.0	–1.6
Deferred tax expenses	–154.1	–69.4	–195.4	–80.4
INCOME TAX EXPENSES	**–155.5**	**–69.9**	**–200.4**	**–82.0**

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 2016:

T24 – Calculation of FFO I, FFO II and AFFO

€ million	*Q4 2016*	*Q4 2015*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Net cold rent	130.4	110.8	511.7	436.1
Profit from operating expenses	–0.7	1.8	–1.6	1.2
Maintenance	–27.1	–17.9	–72.0	–54.4
Employee benefits	–12.0	–10.0	–42.2	–37.4
Allowances on rent receivables	–1.7	–1.3	–7.2	–6.0
Other	–5.3	–4.0	–10.3	–14.4
Non-recurring project costs (rental and lease)	1.8	0.5	2.7	2.3
CURRENT NET RENTAL AND LEASE INCOME	**85.4**	**79.9**	**381.1**	**327.4**
CURRENT NET INCOME FROM OTHER SERVICES	**2.0**	**1.1**	**6.0**	**2.9**
Employee benefits	–5.6	–6.3	–21.6	–22.7
Non-staff operating costs	–5.6	–18.5	–53.7	–33.3
LTIP (long-term incentive programme)	0.0	0.0	0.0	0.2
Non-recurring project costs (admin.)	2.8	12.6	43.2	19.0
Extraordinary and prior-period expenses	0.0	0.0	0.0	0.1
CURRENT ADMINISTRATIVE EXPENSES	**–8.4**	**–12.2**	**–32.1**	**–36.7**
Other income and expenses	0.5	–0.5	0.7	0.1
ADJUSTED EBITDA	**79.5**	**68.3**	**355.7**	**293.7**
Cash interest expenses and income	–20.9	–20.8	–83.2	–87.5
Cash income taxes from rental and lease	–0.8	–	–3.9	–0.2
FFO I (BEFORE ADJUSTMENT OF NON-CONTROLLING INTERESTS)	**57.8**	**47.5**	**268.6**	**206.0**
Adjustment of non-controlling interests	–0.1	–	–0.3	–
FFO I (AFTER ADJUSTMENT OF NON-CONTROLLING INTERESTS)	**57.7**	**47.5**	**268.3**	**206.0**
Adjused net income from disposals	1.1	2.9	25.1	3.6
Cash income taxes from disposal of investment properties	–0.5	–	–1.1	–
FFO II (INCL. DISPOSAL OF INVESTMENT PROPERTIES)	**58.3**	**50.4**	**292.3**	**209.6**
Capex	–30.7	–26.3	–77.5	–59.8
CAPEX-ADJUSTED FFO I (AFFO)	**27.0**	**21.2**	**190.8**	**146.2**

At EUR 268.3 million in the year under review, FFO I (not including net income from the disposal of investment property) was 30.2% higher than in the previous year (EUR 206.0 million). This corresponds to an increase of EUR 0.73 per share. In particular, the increase reflects the effects of the rise in net cold rent as a result of both organic growth and acquisitions (EUR +75.6 million). The decline in cash interest expenses also had a positive effect on the development of FFO I (EUR +4.3 million). This was offset by higher maintenance expenses than in the previous year (EUR –17.6 million).

EPRA earnings per share (EPS)

The following table shows earnings per share according to the best practice recommendations by EPRA (European Public Real Estate Association):

T25 – EPRA earnings per share (EPS)

€ million	**Q4 2016**	*Q4 2015*	**01.01. – 31.12.2016**	*01.01. – 31.12.2015*
NET PROFIT OR LOSS FOR THE PERIOD ATTRIBUTABLE TO PARENT SHAREHOLDERS	**492.5**	**239.7**	**578.1**	**217.8**
Net profit from remeasurement of investment properties	–607.2	–285.5	–616.6	–285.5
Profits or losses on disposal of investment properties, development properties held for investment, other interests and sales of trading properties including impairment charges in respect of trading properties	1.5	–1.5	–5.2	–2.4
Tax on profits or losses on disposals	–1.2	7.9	0.7	6.8
Changes in fair value of financial instruments	–48.3	–2.1	–16.6	75.8
Acquisition costs on share deals and non-controlling joint venture interests	1.1	–0.7	37.2	–0.1
Deferred tax in respect of EPRA adjustments	188.9	85.2	190.1	90.1
Refinancing expenses	60.6	4.1	60.9	16.7
Other interest expenses	0.6	0.2	4.9	39.8
Non-controlling interests in respect of the above	3.3	–0.1	3.5	0.0
EPRA EARNINGS	**91.8**	**47.2**	**237.0**	**159.0**
Weighted average number of shares outstanding	63,188,185	60,665,121	63,013,853	58,286,212
EPRA earnings per share (undiluted) in €	1.45	0.79	3.76	2.73
Potentially diluted shares	5,277,945	5,134,199	5,277,945	5,134,199
Interest coupon on convertible bond	0.2	0.2	1.1	1.1
Amortisation expenses convertible bond after taxes	1.1	0.9	4.9	4.6
EPRA EARNINGS (DILUTED)	**93.1**	**48.3**	**243.0**	**164.7**
Number of diluted shares	68,466,130	65,799,320	68,291,798	63,420,411
EPRA EARNINGS PER SHARE (DILUTED) IN €	**1.36**	**0.74**	**3.56**	**2.60**

Net assets

Condensed statement of financial position

The condensed statement of financial position is as follows: *Table* **T26**

Investment property increased as a result of acquisitions (EUR 1,064.2 million), remeasurement income (EUR 616.6 million), value-enhancing modernisation measures (EUR 77.6 million) and offsetting disposals (EUR –199.6 million, comprising EUR 57.0 million closed after 31 December 2016) by EUR 1,556.4 million against the previous year. As at the reporting date, the share of total assets was 94.3%.

The acquisition of a property portfolio with 13,570 units as at 1 April 2016 resulted in negative goodwill of EUR –7.7 million, recognised as income on first-time consolidation.

The acquisition of a property portfolio with 3,539 residential units as at 1 January 2016 resulted in goodwill of EUR 15.0 million (comprising EUR –3.3 million from deferred taxes on EPRA adjustments and EUR 18.3 million from synergies), reported under other non-current assets. With the closing of this acquisition, advance payments of EUR 201.2 million were recycled (EUR 146.1 million reported in other non-current assets as at 31 December 2015).

As at 31 December 2016, EUR 9.2 million in other non-current assets are recognised as advance payments for the acquisition of a 51% share in TechnikServicePlus GmbH, the facilities management company.

T26 – Condensed statement of financial position

€ million	**31.12.2016**	*31.12.2015*
Investment properties	7,954.9	6,398.5
Prepayments for investment properties	27.3	203.1
Other non-current assets	182.3	296.8
Non-current assets	8,164.5	6,898.4
Receivables and other assets	47.7	37.2
Cash and cash equivalents	166.7	252.8
Current assets	214.4	290.0
Assets held for sale	57.0	6.7
TOTAL ASSETS	**8,435.9**	**7,195.1**
Equity	3,436.7	2,985.0
Non-current financing liabilities	3,222.3	2,745.6
Other non-current liabilities	870.3	673.7
Non-current liabilities	4,092.6	3,419.3
Current financing liabilities	552.0	496.0
Other current liabilities	354.6	294.8
Current liabilities	906.6	790.8
TOTAL EQUITY AND LIABILITIES	**8,435.9**	**7,195.1**

Prepayments for the acquisition of a further property portfolio of EUR 27.3 million were reported as investment property as at the end of the year under review. The transaction was closed on 1 January 2017.

Equity rose as a result of net profit for the period (EUR 579.2 million) and the capital increase (EUR 32.4 million). This was countered by the losses from the remeasurement of pensions and derivatives recognised directly in equity in other comprehensive income (EUR –14.7 million) and the dividend payment of EUR –141.9 million.

Non-current financing liabilities rose by EUR 476.7 million year-on-year mainly as a result of acquisition financing. Driven primarily by net income from the measurement of investment property, deferred tax liabilities rose by EUR 183.8 million, of which EUR 4.5 million was recognised in the context of business combinations.

On 28 February 2017, subsidised loans with a nominal amount of around EUR 182 million were paid back early. As of 31 December 2016, this resulted in additional interest expenses for loan amortisation of EUR 59.8 million being recognised, resulting in an increase in current financing liabilities.

Advance payments received for disposals completed after 31 December 2016 resulted in a rise in advance payments received by EUR 48.0 million.

Net asset value (NAV)

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

The LEG Group reported basic EPRA NAV of EUR 4,205.4 million as at 31 December 2016 (31 December 2015: EUR 3,559.9 million). The effects of the possible conversion of the convertible bond and other equity interests are shown by an additional calculation of diluted EPRA NAV. After adjustment for goodwill effects, adjusted diluted EPRA NAV amounted to EUR 4,597.2 million or EUR 67.15 per share as at 31 December 2016 (31 December 2015: EUR 4,000.7 million or EUR 58.92 per share). *Table* **T27**

T27 – EPRA NAV

€ million	**31.12.2016 undiluted**	**31.12.2016 Effect of exercise of convertibles/ options**	**31.12.2016 diluted**	*31.12.2015 undiluted*	*31.12.2015 Effect of exercise of convertibles/ options*	*31.12.2015 diluted*
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	**3,414.5**	**–**	**3,414.5**	**2,967.8**	**–**	**2,967.8**
NON-CONTROLLING INTERESTS	**22.2**	**–**	**22.2**	**17.2**	**–**	**17.2**
EQUITY	**3,436.7**	**–**	**3,436.7**	**2,985.0**	**–**	**2,985.0**
Effect of exercise of options, convertibles and other equity interests	–	435.6	435.6	–	427.2	427.2
NAV	**3,414.5**	**435.6**	**3,850.1**	**2,967.8**	**427.2**	**3,395.0**
Fair value measurement of derivative financial instruments	146.7	–	146.7	165.5	–	165.5
Deferred taxes on WFA loans and derivatives	20.0	–	20.0	35.4	–	35.4
Deferred taxes on investment property	656.3	–	656.3	465.7	–	465.7
Goodwill resulting from deferred taxes on EPRA adjustments	–32.1	–	–32.1	–34.5	–	–34.5
EPRA NAV	**4,205.4**	**435.6**	**4,641.0**	**3,599.9**	**427.2**	**4,027.1**
NUMBER OF SHARES	**63,188,185**	**5,277,973**	**68,466,158**	**62,769,788**	**5,134,199**	**67,903,987**
EPRA NAV PER SHARE	**66.55**	**–**	**67.79**	**57.35**	**–**	**59.31**
Goodwill resulting from synergies	43.8	–	43.8	26.4	–	26.4
ADJUSTED EPRA NAV (W/O EFFECTS FROM GOODWILL)	**4,161.6**	**435.6**	**4,597.2**	**3,573.5**	**427.2**	**4,000.7**
ADJUSTED EPRA NAV PER SHARE	**65.86**	**–**	**67.15**	**56.93**	**–**	**58.92**
EPRA NAV	4,205.4	435.6	4,641.0	3,599.9	427.2	4,027.1
Fair value measurement of derivative financial instruments	–146.7	–	–146.7	–165.5	–	–165.5
Deferred taxes on WFA loans and derivatives	–20.0	–	–20.0	–35.4	–	–35.4
Deferred taxes on investment property	–656.3	–	–656.3	–465.7	–	–465.7
Goodwill resulting from deferred taxes on EPRA adjustments	32.1	–	32.1	34.5	–	34.5
Fair value measurement of financing liabilities	–312.2	–	–312.2	–327.6	–	–327.6
Valuation uplift resulting from FV measurement financing liabilities	196.5	–	196.5	295.9	–	295.9
EPRA NNNAV	**3,298.8**	**435.6**	**3,734.4**	**2,936.1**	**427.2**	**3,363.3**
EPRA NNNAV per share	**52.21**	**–**	**54.54**	**46.78**	**–**	**49.53**

Loan-to-value ratio (LTV)

Net debt in relation to property assets remained stable in the reporting period.

The loan-to-value ratio (LTV) stands at 44.9% (31 December 2015: 44.2%).

T28 – Loan-to-value ratio

€ million	**31.12.2016**	*31.12.2015*
Financing liabilities	3,774.3	3,241.6
Less cash and cash equivalents	166.7	252.8
NET FINANCING LIABILITIES	**3,607.6**	**2,988.8**
Investment properties	7,954.9	6,398.5
Assets held for sale	57.0	6.7
Prepayments for investment properties	27.3	203.1
Prepayments for business combinations	–	146.1
REAL ESTATE ASSETS	**8,039.2**	**6,754.4**
LOAN TO VALUE RATIO (LTV) IN %	**44.9**	**44.2**

Financial position

Financing structure

The Group generated a net profit for the period of EUR 579.2 million (previous year: EUR 217.7 million). Equity amounted to EUR 3,436.7 million (previous year: EUR 2,985.0 million). This corresponds to an equity ratio of 40.7% (previous year: 41.5%).

LEG Immobilien AG performed one capital increase in the reporting period. 418,397 new shares were issued on 30 May 2016 in exchange for a property portfolio with around 1,100 units. Net emission proceeds amounted to EUR 32.4 million and included EUR 1.5 million transaction costs which were deducted directly from the capital reserves.

A dividend of EUR 141.9 million (EUR 2.26 per share) was paid from cumulative other reserves in the reporting period.

Statement of cash flows

The condensed statement of cash flows of the LEG Group for 2016 is as follows:

T29 – Statement of cash flows

€ million	**01.01. – 31.12.2016**	*01.01. – 31.12.2015*
Cash flow from operating activities	207.0	166.9
Cash flow from investing activities	–565.7	–495.9
Cash flow from financing activities	272.6	451.9
CHANGE IN CASH AND CASH EQUIVALENTS	**–86.1**	**122.9**

Higher proceeds from net cold rent had a positive effect on the development of cash flow from operating activities. Opposing effects resulted from higher payments for maintenance and volume-based management costs. The cash flow from operating activities therefore increased by EUR 40.1 million year-on-year to EUR 207.0 million.

Acquisitions and modernisation work on the existing property portfolio resulted in payments of EUR –629.2 million reported in cash flow from investing activities. This was offset by the proceeds from the sale of properties in the amount of EUR 63.6 million.

Repayments of bank loans (EUR –249.4 million) and the utilisation of new loans (EUR 673.2 million), mostly due to acquisition financing, contributed to the cash flow from financing activities. The dividend distribution in 2016 was EUR 30.1 million higher than in the same period of the previous year (EUR 111.8 million).

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

Information on the events after the reporting period can be found in the notes to the consolidated financial statements.

RISKS, OPPORTUNITIES AND FORECAST REPORT

RISKS AND OPPORTUNITIES REPORT

Governance, risk & compliance

Standard process for integrated management of corporate risks

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

Accounting process/ internal control system

Regarding the accounting process, the aim and purpose of the internal control system is to ensure the application of statutory requirements and the correct and complete recording of all transactions. 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.

For business processes that are divided into strategic, core business, operational and central support processes, all recurring transactions must be recorded and presented accurately, completely and in accordance with statutory requirements in addition to being updated on an ongoing basis. To this end, in 2012 LEG established the internal control system in line with the relevant legal provisions and industry standards that comprises principles, methods and measures aimed at ensuring proper procedures.

The internal control system has the following objectives:

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

The internal control system is constantly being expanded and optimised to meet business process requirements. Various processes have been revised or supplemented in the context of regular updates. As part of the reorganisation of the operating divisions, the risk control matrices of the core business processes were completely revised. A separate document created additionally for each business process lists all the material risks of the respective process. Usually at least one process-integrated control – and often several such controls – are assigned for every risk recorded. The possible types and forms of control were again substantiated further and standardised. If general key controls have been defined, detailed information including the control owner, the review intervals and the specific review procedure were included in the risk control matrix. In future, the performance of the defined controls will be documented using standard forms and then stored in a structured manner on a central SharePoint.

LEG's Internal Audit conducts process-independent audits to monitor the effectiveness of the internal control system. The auditor also assesses the internal control system as part of the audit of the annual financial statements. On the basis of these reports, the Supervisory Board and the Audit Committee review the functionality of the internal control system with respect to the accounting process. The key features as regards the (consolidated) accounting process are summarised as follows:

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

Compliance management

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance system is designed for 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 assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who 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 Internal Audit, Legal and Human Resources discuss the design of the compliance system with the external ombudsman. 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. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor.

Compliance is assigned to the Legal, Internal 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.

Risk management

LEG Immobilien AG has a Group-wide risk management system (RMS). A key component of LEG's risk management system is the Group-wide risk early warning system. This system is supported by the "R2C – 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 an auditing company regarding the requirements of the German Stock Corporation Act as part of its audit of the annual financial statements. The audit found that the Management Board has taken the measures prescribed by section 91(2) AktG on establishing an appropriate risk early warning system and that the risk early warning system is suitable for identifying developments that could jeopardise the continued existence of the company at an early stage. The regulatory requirements of LEG's risk early warning system were satisfied this year as well.

The risk management system in place is subject to a constant process of development and optimisation to adapt it to new internal and external developments. Among other things, further internal interfaces to the risk management system were introduced and methodological optimisations were implemented in the financial year. Early risk detection in particular was optimised once again as a result.

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

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

Assessment content/schemes

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

The benchmark for assessing and classifying the potential impact is the effect on liquidity. In such cases, the assessment and classification are based on deviations from planned earnings as per the five-year business plan adopted by the Supervisory Board.

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

The individual categories for liquidity impact are as follows:

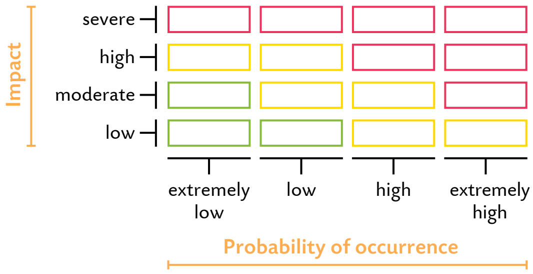
a) Low:Impact of between EUR 0 million and EUR 0.5 million
b) Moderate: Impact of between EUR 0.5 million and EUR 2.25 million
c) Significant: Impact of between EUR 2.25 million and EUR 11.25 million
d) Severe: Impact of between EUR 11.25 million and EUR 45.0 million

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 multiplied by probability of occurrence):

F9 – Risk matrix



Overall assessment of risks and opportunities

General risks such as macroeconomic risks and market risks are first discussed below. Continuing from the overall risks, those that the company feels are particularly relevant have been described together with the measures used to control them.

Overall, the Management Board does not expect any risks to the continued existence of the LEG Group as a whole for the 2017 and 2018 financial years.

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

Risk reporting

Macroeconomic risks

The German property market is influenced by general economic developments and is therefore subject to both internal and external economic risk factors on the business model. Further risks can arise from turbulence on the financial markets.

The economy in Germany has long been characterised by robust domestic trade. However, there are risks to foreign trade with regard to future relations with key trading partners. This includes possible risks associated with the Brexit decision or increased protectionist measures by the US. There are further risks to Germany and the euro area in slowing growth in emerging markets, ongoing geopolitical tension and political uncertainty due to the forthcoming elections in several major European countries in 2017. Overall, the economic recovery in the euro area is still prone to failure due to persistent structural problems and high debt.

A significant deterioration in the economic environment could have a negative impact on the German labour market and the income of private households, and could therefore adversely affect letting business. Furthermore, there is the risk of rising interest rates on the financial markets. This would have a negative impact on property values and could harm LEG's financing conditions in the medium term.

By contrast, opportunities lie in a significant acceleration of the global economy, in immigration and the resulting increase in demand for affordable housing on the German property market.

Market risks

The majority of LEG's property portfolio is located in Germany's most populous state of North Rhine-Westphalia. A small share of the properties are located in the neighbouring state of Lower Saxony and in Rhineland-Palatinate. Within NRW various sub-markets can be observed that show different characteristics regarding their demographic and economic characteristics. In particular, high population growth, which can mainly be seen in economically strong conurbations such as Cologne, Dusseldorf, Bonn and Münster, correlates with strong demand for housing and corresponding increases in rents and purchase prices. Accordingly, there is greater competition between providers of housing in regions with lower economic appeal. The development in rents and prices on such tenant markets is less dynamic compared to the growth markets.

By monitoring the market, LEG forms a comprehensive picture of the individual sub-markets on the basis of internal and external data sources. In doing so it uses both historical data and future projections. The primary sources are publications by statistical offices and other authorities, market studies by independent third parties and analyses of the company's own data sets. The positive trend seen in previous years continued in 2016 as well, leading to rising rents with increasing demand on the North Rhine-Westphalia housing market overall.

Owing to the strong upturn in refugee numbers in recent years, forecasts based on updated data from previous years are less certain at the current time. This also applies to the predictions of future migration figures. This migration is expected to generate positive stimulus on all sub-markets. The risks and opportunities (expressed as, for example, active vacancies, rent levels, etc.) identified in market monitoring are taken into account in investment calculations and management processes. In addition to the increased demand for housing as a result of migration, which is generally affecting all sub-markets equally, the early identification of future high growth markets can offer the opportunity to invest in the market at a more favourable level to benefit greatly from expected increases.

Properties will be sold selectively, taking risk minimisation aspects into account in particular. Further arguments for selling properties objects are comparatively low management efficiency at locations with poor property concentrations and market trends where only limited potential for value increase can be expected according to the average purchase prices observed. Significant opportunities in the context of sales lie in the monetarisation of past positive valuation effects and the reduction of maintenance and market risks.

Risks concerning property valuation

The parameters for property valuation are divided into market information, assessment of the technical quality of the properties and economic indicators related directly to the properties, of which the occupancy rate and the rent are the most important. Market information is used in macro and micro market scoring, in which socio-demographic data and the existence of infrastructure are the most important aspects. The area of market data also includes the rents possible on the market and the vacancies on the respective sub-market, from which the rent potential is derived for valuation. A scoring system reflecting the state of the most important aspects of the building is used to determine the technical quality of the property.

Each parameter has to, varying degrees, both a positive and negative impact on the results of valuation. The parameters with the strongest influence are market rent, the general price trend, which is reflected in the discount and capitalisation rate, and the assumed future developments with regard to rent and cost increases.

In connection with the general economic development in Germany, numerous factors can also affect property valuation results. The prices of other forms of investment such as stocks or bonds can also influence the prices observed on the property market as property can become more or less attractive relative to these investment alternatives. Owing to the time lag between a transaction and data availability, a negative market development can result in the delayed consideration of effects in valuation.

On the other hand, a consistently positive development of residential property as an asset class, which is particularly reflected in the aspects "market" and "price development", provides the opportunity for valuation gains.

Risk categorisation

In its risk reporting, LEG classifies the identified risks according to the main categories and subcategories shown below, and their associated impact and probability of occurrence (after deducting the effects of planned and established countermeasures): *Table* **T30**

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 below.

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, based on the risk inventory of 31 December 2016, are explained in more detail below regardless of their valuation levels.

General business risks

According to the LEG risk assessment matrix these are not relevant risks.

The Social Charter ends on 28 August 2018. Until then, its protective provisions – which are enforceable by penalty – must be complied with in full. They relate to regulations on tenant and employee protection, economic restrictions and limitations on reselling and restructuring. The protective provisions of the Social Charter affect extensive activities and transactions in the day-to-day operations of the LEG Group.

Avoiding breaches of the social charter is still a top priority in the LEG Group in order to avoid both the payment of penalties and the loss of reputation on the housing market that this would entail.

The system implemented in recent years to reliably avoid Social Charter violations has been a proven success. The system comprises both a quality assurance concept and the intensive review of all measures and actions relating to the protective provisions of the Social Charter by an auditor.

T30 – 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	Others	Severe	Extremely low
Property risks	No relevant risks	No relevant risks	No relevant risks
Finance	Breach of financial covenants	Severe	Extremely low
Accounting	No relevant risks	No relevant risks	No relevant risks
Tax risks	Taxes/duties	Material	Highly probable
	Taxes/real estate transfer tax	Severe	Low
Human resources risks	No relevant risks	No relevant risks	No relevant risks
Legal risks	Liability/insurance risks	Severe	Low
Information and communication risks	No relevant risks	No relevant risks	No relevant risks
Project business risks	Commercial project business risks	Moderate	Highly probable

As in previous years, full compliance was confirmed by the audit company with an unqualified opinion in the most recent audit period of 2015. If, contrary to expectations, the protective provisions are nonetheless not complied with, the terms of the Social Charter state that any violations can be rectified in full within six months of becoming known.

In addition to the LEG Social Charter, compliance with the social charters of the two railway companies, Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN) and Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal, are ensured by organised committee work. The social charters of the railway company partners are based on the purchase agreements of 14 December 2001 and 9 October 2014.

In 2012 LEG Wohnen Bocholt GmbH acquired 1,244 apartments in Bocholt. This portfolio is protected by the GAGFAH Social Charter, which applied until 3 January 2017 and is also enforced by penalty. This protection was adopted in full by LEG Wohnen Bocholt GmbH. Compliance is assured by qualified business processes.

Compliance risks

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

Services rendered by third parties can involve orders or invoices that are not consistent with market standards. This can apply to any kind of service or 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.

Property risks

Modernisation/maintenance risks

According to the LEG risk assessment matrix these are not relevant risks.

Modernisation and maintenance risks essentially include changing legislation and regulations on safety precautions or similar requirements, such as for energy efficiency. If known of in time, the changes and their monetary impact are taken into account in business planning and approved by the relevant executive bodies.

Should unforeseen risks in relation to safety precautions arise, measures are taken to avert or mitigate the risk promptly. Unforeseen maintenance risks can result from the sudden and expected deterioration in the condition of individual areas of work, e.g. due to poor weather conditions. Here, too, a risk assessment is made as soon as possible when the defect is learned of and its rectification is arranged accordingly.

Modernisation risks essentially consist of the usual scheduling and cost risks for projects. If schedules are not adhered to, it may be possible to implement planned rent increases only at a later date. Similarly, cost overruns can lead to a reduction in the projected return on the project. At the same time, the optimisation of scheduling and costs through professional project management and efficient procurement of services offers the opportunity to achieve higher returns and faster implementation.

Technical management

According to the LEG risk assessment matrix these are not relevant risks.

Risks in the technical management of property essentially result from:

- The technical structure of properties (particularly technical shortcomings in acquisitions)
- Compliance with fire protection regulations and other regulatory requirements
- Compliance with building regulations
- The implementation of safety services
- The taking on of existing contracts on acquisitions
- Compliance with the agreed terms in the implementation of existing agreements

To counteract or minimise these risks in technical management, LEG will continue to focus its efforts on pooling and standardising services, optimising processes and integrated service management.

Portfolio risks

According to the LEG risk assessment matrix these are not relevant risks.

A regular evaluation of factors that influence value from an operational and market perspective leads to the following significant risks for the portfolio: A sudden and unexpected deterioration of a building's fabric is referred to as a technical risk. If such a risk occurs, unplanned maintenance costs can be incurred. To minimise the risk, there are regularly inspections of properties by qualified internal or external technicians. Averting real danger to life and limb is accorded the utmost priority by regular safety inspections.

The deterioration of the economic environment, changes in customer preferences with respect to the type of apartment wanted and increased competition can lead to demand risks. These risks can generally result in reduced demand for housing or reduced demand for a particular type of apartment. If necessary, LEG is able to respond to changes in customer demand even at short notice. The ongoing development of the portfolio is ensured by long-term management concepts as part of the general housing strategy.

Like other markets, residential property markets are subject to cyclical developments. If market demand from institutional investors wanes (for example, on account of the growing attractiveness of other investment forms), price trends for residential properties can lose momentum or turn negative. Increased construction activity over a prolonged period could also ultimately lead to a surplus of comparable housing, with the result that developments in rent lose momentum or decline.

Sustained positive economic momentum over the long term coupled with lasting growth in population and purchasing power will have a positive effect on residential property as an investment class as a result of increased demand and a general rise in living space per person.

Risk of rent default

According to the LEG risk assessment matrix these are not relevant risks.

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

Acquisition risks

According to the LEG risk assessment matrix these are not relevant risks.

The possible acquisition of new properties is constantly under review as part of LEG's structured acquisition activities. Internal and external experts are involved in assessing the risks and potential. This enables reliable assessments of the quality of properties and their (rent) development.

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

Sales risks

According to the LEG risk assessment matrix these are not relevant risks.

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

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

Finance

Rollover risk

Rollover risk describes the risk that, when financing expires, follow-up financing cannot be prolonged or cannot be prolonged at the anticipated conditions, thereby necessitating the repayment of financing. This risk is limited thanks to the long-term financing structure and the distribution of maturities over a period of several years. The rollover risk is also very minor thanks to the currently consistently good environment on the finance market in terms of the willingness of banks to finance housing portfolios and historically low interest rates.

Rollover risk has been reduced further by the early refinancing agreements concluded in 2016. The next follow-up financing with a volume of more than EUR 100 million is not scheduled until the 2021 financial year.

Breach of financial covenants

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

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

According to the LEG risk assessment matrix these are not relevant risks.

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

In particular, the default of a financing partner could lead to direct financial losses under contractual arrangements giving rise to claims on the part of LEG, e.g. derivative interest hedges. The internal guidelines for concluding new interest rate hedges therefore provide corresponding minimum requirements regarding the counterparty's credit rating. LEG currently has no claims against its counterparties as the derivatives all had a negative market value as at the end of the reporting period.

Liquidity risk

According to the LEG risk assessment matrix these are not relevant risks.

Ensuring solvency at all times is constantly monitored by means of a rolling liquidity plan. The binding internal treasury policy requires that a defined minimum liquidity reserve is 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.

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

Debt risk

According to the LEG risk assessment matrix these are not relevant risks.

The leverage ratio has a significant effect on the assessment of LEG's economic situation and therefore on its access to the financing market. The result of operations is expected to improve thanks to lower average interest expenses. Compared to the 2016–2020 business plan, the 2017–2021 business plan provides for higher and rising EBIT, partly due to acquisitions, with nominally constant interest expenses declining relative to income and thereby improving EBT. Analysts, banks and the rating agency Moody's (Baa1, stable) attest to the LEG Group's strong market position with regard to its debt. A deterioration of these credit assessments is not expected.

Accounting

According to the LEG risk assessment matrix these are not relevant risks.

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 also see the description of the internal control system in the risk report.

Tax risks

Taxes/levies (external audit)

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 has also been initiated.

The audit of the Vitus Group acquired in 2014 for the years 2007 to 2009 concluded with no significant findings. The tax assessments for these years are now largely final.

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

Taxes/realestate transfer taxes

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

Human resources risks

According to the LEG risk assessment matrix these are not relevant risks.

HR management faces major strategic challenges in irreversible megatrends such as demographic and technological change and the changing values of younger generations. LEG will meet these challenges mainly with life phase-oriented HR development and with measures and activities geared to the needs of current and future staff that contribute to LEG's employer branding and the work-life harmony of its employees. With innovative HR management instruments, LEG is lastingly ensuring its attractiveness and appeal as an employer while also allowing these aspects to evolve constantly. In 2017 LEG will again take part in the "Great Place to Work" contest.

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

The HR department has a reasonable risk and opportunity situation aligned to the strategic objectives of the company.

Legal risks

Liability/insurance risks

All employees and executive bodies of the LEG Group must comply with the statutory regulations on insider trading (Market Abuse Regulation). Violations mean the personal liability of those concerned and a loss of reputation by LEG; there are also significant risks of fines for LEG. A risk relevant to the LEG Group could result from this. In the past financial year the company has comprehensively revised its corresponding processes and information in order to meet the requirements of the Market Abuse Regulation in full.

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

Contract risks

According to the LEG risk assessment matrix these are not relevant risks.

Risks in connection with warranties and legal disputes arise in particular from purchase and sale projects and the contracts on which they are based. Sufficient provisions for these were recognised in previous years. The value of these risks has been steadily and significantly reduced by selling these projects over the last few years.

Legal disputes

According to the LEG risk assessment matrix these are not relevant risks.

In legal disputes, LEG distinguishes between active and passive proceedings. Active proceedings are all proceedings within LEG in which it is claiming a receivable. These can be payments in arrears under leases (low disputed values/high number of cases) or other claims, such as defect warranty proceedings from former construction activities (high disputed values/low number of cases). Active rental proceedings (rent receivables) are conducted out of court by the competent handlers (receivables management) and, if unsuccessful, reviewed by case management, a unit within Legal, Internal Audit and Compliance, and then passed on to a law firm. Active proceedings with a high disputed value are first examined by the Legal, Internal Audit and Compliance 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.

Passive proceedings are all those in which receivables are claimed from LEG. Passive proceedings are always first passed on to Legal, Internal Audit and Compliance. 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.

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.

Information and communication risks

IT risks

According to the LEG risk assessment matrix these are not relevant risks.

LEG uses SAP as its core operating application. It also utilises integrated best-of-breed solutions. Possible system and application failures are prevented using redundant components, service level agreements with IT service providers and corresponding backup systems. Current IT security measures and authorisation concepts prevent unauthorised access to systems.

Newly emerging digitisation trends are continuously assessed by an interdisciplinary team with regard to their revenue potential for new services and the optimisation of existing business processes.

Project business risks

Commercial/technical project business risks

The relevant risks subject to a review of the contractually agreed conditions without a legal discussion include – in descending order – reviews of subsidies that may be claimed excessively or the implementation of a type of building use (e.g. of higher value) other than that contractually intended, or the processing of warranty defects not covered by a warranty bond.

To prevent such risks from occurring, records and files are analysed and assessed in close coordination with the institution conducting the review (e.g. funding agencies). Provisions of a sufficient amount have already been recognised for the transactions currently ongoing.

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

According to the LEG risk assessment matrix these are not relevant risks.

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. Audits are carried out on a regular basis in order to prevent these risks. Thanks to the work performed, the system is currently operating with stable operating income.

Other project business risks

According to the LEG risk assessment matrix these are not relevant risks.

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. It is assumed that the measures taken will fully cover any potential future charges. There are no signs of any additional hidden liability risks from our former Development business.

REPORT ON OPPORTUNITIES

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

With around 128,000 residential units as at 31 December 2016, LEG Immobilien AG is one of the leading property managers and listed residential housing companies in Germany. Its regional focus is on the North Rhine-Westphalia (NRW) metropolitan region. A consistently value-oriented business model geared to growth and a focus on customers reconciles the interests of shareholders and tenants. LEG's growth strategy is aimed at the sustainable growth of its existing portfolio, the selective expansion of tenant-oriented services and value-adding acquisitions. Demand for affordable housing is rising, and is being accelerated by the current high migration figures into urban areas especially.

One important growth driver is leveraging economies of scale through selective external growth. Since the IPO, a total of around 42,000 residential units have been notarised and transferred to LEG's portfolio. Around 2,000 of these residential units were acquired in 2016, of which only approximately 1,700 were integrated by the end of the year. Further acquisitions are planned. The regional focus is on the existing core markets with the highest synergy potential, and will be expanded at their geographical borders in accordance with LEG's management platform.

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

FORECAST REPORT

LEG has achieved the key targets it had set for the 2016 financial year. Below, the key performance indicators achieved have been compared against the forecast from the previous year.

The key financial earnings indicator in the property sector is FFO (funds from operations). Unlike net profit for the year, FFO is not influenced by volatile valuation results. For the 2016 financial year, LEG had projected FFO I in a range between EUR 254 million and EUR 259 million. As a result of anticipated interest savings due to early loan refinancing, this range was raised to between EUR 257 million and EUR 262 million in May 2016. It was adjusted slightly upwards again in August 2016 to between EUR 261 million and EUR 265 million on account of the early effects of the efficiency enhancement programme. With FFO I of EUR 268.3 million for the 2016 financial year, LEG therefore surpassed the last forecast published.

At 2.5%, rent growth per square metre on a like-for-like basis – another key operating performance indicator – was in line with the forecast target corridor of between 2.4% and 2.6%. Regarding vacancy, a stable development in the very low vacancy rate as at the end of 2015 was assumed for the 2016 financial year. While the vacancy rate on a like-for-like basis remained at a low level of 2.9% as at the end of the 2016 reporting period, it did not quite match the figure for the previous year of 2.5%, which was due to temporary effects in connection with the reorganisation and further optimisation of the operating units and the provisional staff bottlenecks this entailed.

The market environment in the 2016 financial year provided LEG with opportunities to implement more value-adding measures, with the result that the original target figure for investment was raised from around EUR 17 per square metre to around EUR 18 per square metre in August 2016. This target was achieved with investment of around EUR 18 per square metre.

Since its IPO, LEG's target for acquisitions has been an average of at least 5,000 residential units per year. After significantly outperforming these targets in previous years, a total of around 2,000 residential units that were in line with LEG's yield and other strict purchase criteria were acquired in the 2016 financial year. Against the backdrop of a weaker transaction market with much higher asking prices, further value-adding acquisitions could not be identified and, consequently, it was decided not to aim at the quantitative fulfilment of the average acquisition target.

LEG is committed to a strong statement of financial position with an LTV of not more than 50%. With an LTV of 44.9% as at the end of the reporting period, it complied with this target.

As forecast, net asset value (NAV) was positively influenced by rent development. Price momentum in the market led to NAV growth in excess of rental performance.

Outlook 2017

Economic research institutes expect the moderate economic growth to continue in 2017. According to the Bundesbank estimate, real gross domestic product in Germany is set to rise by 1.5% in 2017.

LEG feels it is well positioned to benefit from the favourable supply and demand situation for affordable housing in Germany. In particular, demand is likely to be driven further by ongoing net immigration. For the 2017 financial year, LEG therefore anticipates further increases in rental income and expects that this – combined with further efficiency enhancements and lower interest costs – will result in a strong rise in FFO I and thus a higher dividend once again.

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

FFO I

LEG expects to generate FFO I of between EUR 288 million and EUR 293 million in 2017. A further increase to between EUR 310 million and EUR 316 million is assumed for 2018. This forecast includes earnings effects from the announced modernisation programme and refinancing at lower interest costs, but not additional effects from possible future acquisitions.

Rent

In line with the three-year cycle, the cost of rent is scheduled to be adjusted in 2017, which contributes to the fact that LEG expects accelerated rental growth on a like-for-like basis in a range of between 3.0% and 3.3%. There will be no major adjustments in the rent-restricted portfolio in the 2018 financial year, though positive stimulus is anticipated from the modernisation programme, hence rental growth of roughly 3% (like-for-like) is forecast.

Vacancy rate

The vacancy rate of the LEG portfolio has already reached a low level. It is expected that the like-for-like vacancy rate can be reduced again slightly in 2017.

The following development is forecast for other relevant performance indicators:

Maintenance and capital expenditure

While maintaining high capital efficiency, LEG's management strategy is geared towards preserving the quality of the portfolio and selectively leveraging opportunities for value-adding capital expenditure. Around EUR 24 per square metre will be invested in the portfolio in 2017. The share of value-adding modernisation measures that can be capitalised will rise compared to previous years from 2017.

Acquisitions

Assuming a suitable supply situation on the market, LEG feels it is still well positioned in NRW to further expand its leading market position in the state through acquisitions.

LTV

In order to safeguard its defensive long-term risk profile, LEG intends that its LTV will stay in a target corridor of 45% to a maximum of 50%.

NAV

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

Dividend

LEG is planning to distribute 65% of its FFO I to shareholders as a dividend on a long-term basis.

REMUNERATION REPORT

The remuneration report outlines the structure and amount of the remuneration paid to the members of the Management Board and the Supervisory Board. The report is based on the recommendations of the German Corporate Governance Code (DCGK), the requirements of the German Commercial Code (HGB), the German Accounting Standards as well as the International Financial Reporting Standards (IFRS).

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), Thomas Hegel, Eckhard Schultz and Holger 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 effect 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) of the Aktiengesetz (AktG – German Stock Corporation Act).

By way of resolution of the Supervisory Board on 31 May 2016 and individual Management Board agreement dated 20 June 2016, the Management Board agreement of Holger Hentschel was amended as follows with effect from 1 July 2016:

- Increase in fixed remuneration from EUR 300,000.00 p.a. to EUR 350,000.00 p.a.
- Increase of STI-programme (in case of 100% target achievement) from EUR 200,000.00 p.a. to EUR 250,000.00 p.a.
- Increase of annual LTI-programme (in case of 100% target achievement) from EUR 250,000.00 p.a. to EUR 300,000.00 p.a.

REMUNERATION SYSTEM OF THE MANAGEMENT BOARD

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

With the existing rights and obligations remaining in effect, the individual Management Board agreement of Holger Hentschel was amended or replaced particularly as regards the remuneration components effective 1 July 2016.

The remuneration of the members of the Management Board consisted of a fixed component (basic remuneration), a variable component with a short-term incentive function (STI) and a variable component with a mid to long-term incentive function (LTI) for the whole of the 2016 financial year.

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

T31 – Remuneration components

T€	Thomas Hegel CEO	Eckhard Schultz CFO	Holger Hentschel COO
Fixed remuneration			
	520	468	350[1]
	–	–	300[2]
One-year variable remuneration (STI)			
	325	312	250[1]
	–	–	200[2]
Multi-year variable remuneration (LTI)			
	390	364	300[1]
	–	–	250[2]
TOTAL REMUNERATION			
	–	**–**	**900[1]**
	1,235	**1,144**	**750[2]**

[1] from 1 July 2016
[2] until 1 July 2016

The maximum total remuneration granted in return for the work of the respective member of the Management Board for one financial year – including basic remuneration, STI, LTI (plus full utilisation of possible adjustments) and benefits – is EUR 1,510 thousand for Thomas Hegel, EUR 1,397 thousand for Eckhard Schultz and EUR 1,100 thousand for Holger Hentschel (from 1 July 2016). If the maximum remuneration for a financial year is exceeded, the payout of the LTI tranches for the corresponding financial year will be reduced.

Fixed remuneration component

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

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

If members of the Management Board are voluntarily insured under the statutory pension scheme or are members of a professional pension scheme in place of the statutory pension scheme, 50% of the standard contributions to the statutory pension scheme are paid. This is capped at an annual payment of EUR 15,000.

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

The monetary value arising from private use is capped at EUR 45 thousand for Thomas Hegel and EUR 30 thousand for Eckhard Schultz and Holger Hentschel. The wage and income taxes on these benefits are paid by the respective member of the Management Board. Members of the Management Board are also reimbursed for expenses and travel costs.

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

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

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

The basis of calculation for the STI is the attainment of the following four sub-targets defined in the respective consolidated IFRS business plan of the company. The business plan resolved by the Supervisory Board for the respective fiscal year applies. If the Supervisory Board does not resolve a business plan for the respective fiscal year, the four sub-targets for the purposes of the STI are defined by the Supervisory Board at its discretion (section 315 of the German Civil Code) with reference to the targets for the previous year.

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

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

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

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

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

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

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

The STI to be calculated and possibly adjusted for the respective financial year is capped at EUR 423 thousand for Thomas Hegel, EUR 406 thousand for Eckhard Schultz and from 1 July 2016 EUR 325 thousand for Holger Hentschel.

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

Regarding the calculation of the sub-target Funds from Operations I per share, the Supervisory Board meeting on 9 March 2016 decided that an increased number of shares resulting from capital measures for acquisition financing will only be considered after closing of the acquisition, with effect pro rata temporis.

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

The LTI achieved based on the set targets can be increased or decreased – at the discretion of the Supervisory Board (discretionary decision) – by up to 30%.

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

The LTI calculated and possibly adjusted for the respective performance period is capped at EUR 169 thousand for Thomas Hegel, EUR 158 thousand for Eckhard Schultz and EUR 130 thousand for Holger Hentschel (from 1 July 2016). The total LTI available for a financial year is capped at EUR 507 thousand for Thomas Hegel, EUR 473 thousand for Eckhard Schultz and EUR 390 thousand for Holger Hentschel (from 1 July 2016).

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

At the start of each relevant financial year, the Supervisory Board and the Management Board member conclude an LTI target agreement, which contains the specifications for the two performance targets for each tranche based on the relevant performance period. Similarly, the ratio between the degree of attainment and the attributable share of the partial amount of the tranche must be stipulated. If no agreement is reached, these components are set by the Supervisory Board at its discretion (section 315 BGB) by reference to the targets for the previous year.

The following specific targets (target corridors) apply:

LTI 2013

T32 – 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.	3.0	5.0	4.0	7.0	6.0	10.0
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD I Ø P.A.	**4.0**		**5.5**		**8.0**	
PERFORMANCE AGAINST EPRA	**90**		**100**		**110**	

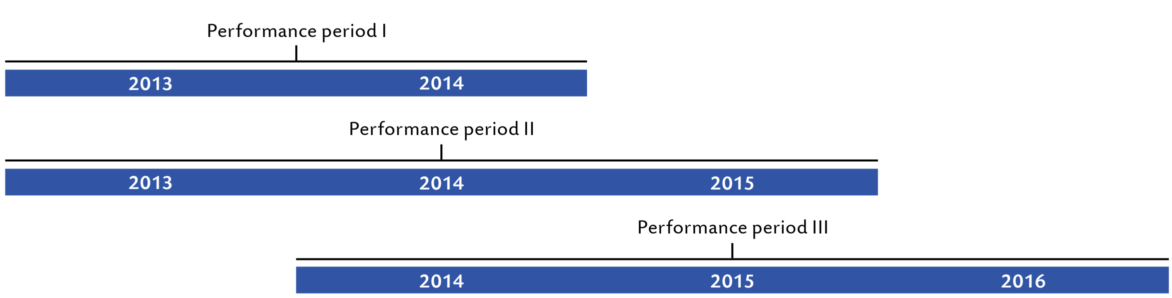
T33 – LTI 2013/Performance period II

	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 SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.	**4.8**			**6.0**			**7.2**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T34 – 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 SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F10 – Performance periods 2013



2013 = relevant fiscal year

PERIOD UNDER REVIEW LTI

LTI 2014

T35 – 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 SHAREHOLDER RETURN PERFORMANCE PERIOD I Ø P.A.	**5.6**		**7.0**		**8.4**	
PERFORMANCE AGAINST EPRA	**90**		**100**		**110**	

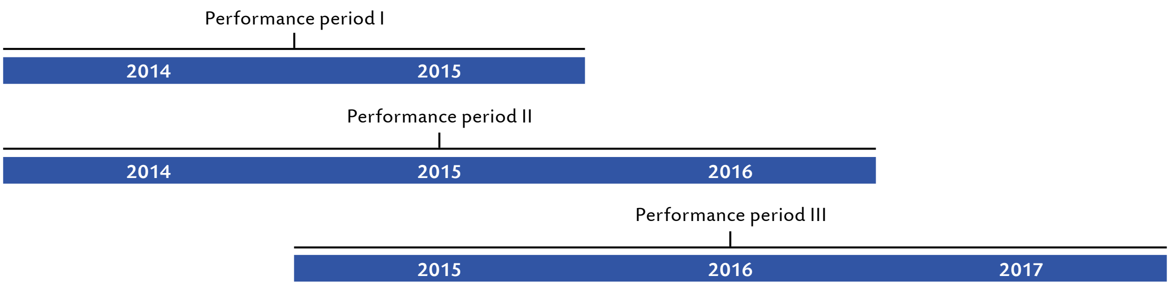
T36 – LTI 2014 / Performance period II

	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 SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T37 – 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 SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F11 – Performance periods 2014



2014 = relevant fiscal year

PERIOD UNDER REVIEW LTI

LTI 2015

T38 – LTI 2015 / Performance period I

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

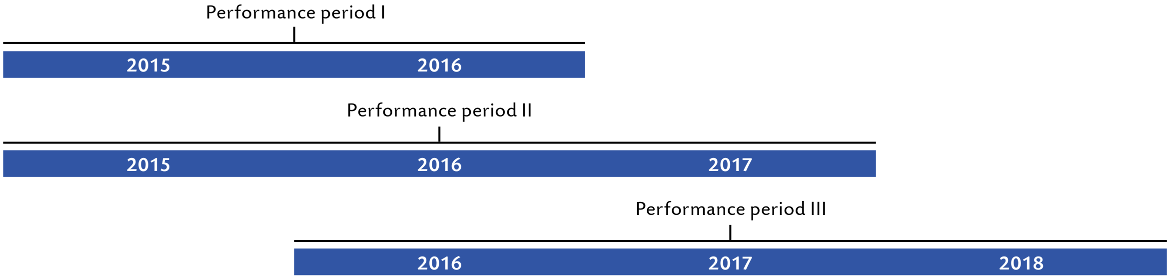
T39 – LTI 2015 / Performance period II

	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 SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T40 – LTI 2015 / Performance period III

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*
Total shareholder return p.a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F12 – Performance periods 2015



2015 = relevant fiscal year

PERIOD UNDER REVIEW LTI

LTI 2016

T41 – LTI 2016 / Performance period I

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

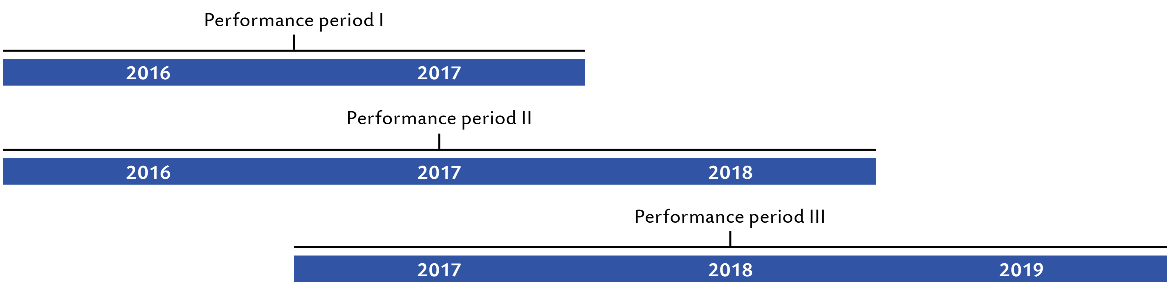
T42 – LTI 2016 / Performance period II

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*
Total shareholder return p.a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T43– LTI 2016 / Performance period III

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2017*	*2018*	*2019*	*2017*	*2018*	*2019*	*2017*	*2018*	*2019*
Total shareholder return p.a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F13 – Performance periods 2016



2016 = relevant fiscal year

PERIOD UNDER REVIEW LTI

LTI 2017

T44 – LTI 2017 / Performance period I

	Target attainment 80%		*Target attainment 100%*		*Target attainment 120%*	
%	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*
Total shareholder return p.a.	5.6	5.6	7.0	7.0	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD I Ø P.A.	**5.6**		**7.0**		**8.4**	
PERFORMANCE AGAINST EPRA	**90**		**100**		**110**	

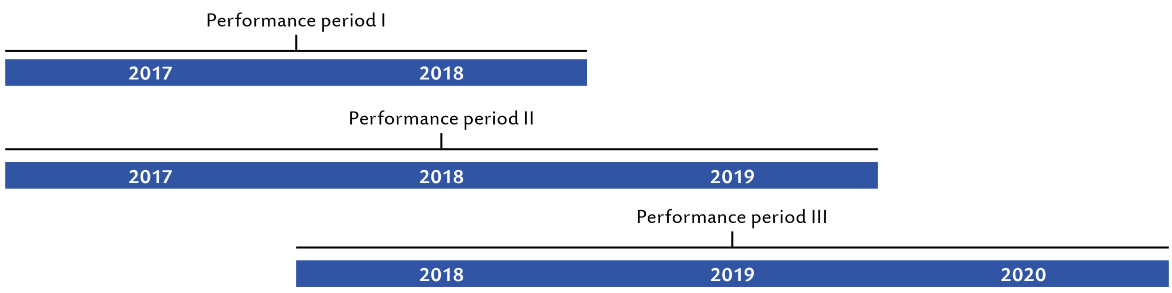
T45 – LTI 2017 / Performance period II

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2017*	*2018*	*2019*	*2017*	*2018*	*2019*	*2017*	*2018*	*2019*
Total shareholder return p.a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

T46– LTI 2017 / Performance period III

	Target attainment 80%			*Target attainment 100%*			*Target attainment 120%*		
%	*2018*	*2019*	*2020*	*2018*	*2019*	*2020*	*2018*	*2019*	*2020*
Total shareholder return p.a.	5.6	5.6	5.6	7.0	7.0	7.0	8.4	8.4	8.4
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.	**5.6**			**7.0**			**8.4**		
PERFORMANCE AGAINST EPRA	**90**			**100**			**110**		

F14 – Performance periods 2017



2017 = relevant fiscal year

PERIOD UNDER REVIEW LTI

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

Long-term incentive plan with former shareholders

As a result of the IPO of LEG Immobilien AG – as in previous years – claims arose as at 31 December 2016 from agreements between former shareholders and the Management Board.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD IN 2016

The benefits granted to the Management Board for the 2016 financial year were as follows: *Table* **T47**

On the basis of the assessment of the attainment of performance hurdles, staff costs of EUR 0.8 million (2015: EUR 0.8 million) were recognised for the 2014 to 2017 LTI as at 31 December 2016, EUR 0.3 million of which for Thomas Hegel (2015: EUR 0.3 million), EUR 0.3 million for Eckhard Schultz (2015: EUR 0.3 million) and EUR 0.2 million for Holger Hentschel (2015: EUR 0.2 million).

For the 2016 (2015) STI, an amount of EUR 0.4 million (EUR 0.3 million) was recognised in staff costs for Thomas Hegel, of EUR 0.3 million (EUR 0.3 million) for Eckhard Schultz and EUR 0.2 million (EUR 0.2 million) for Holger Hentschel.

A total expense of EUR 0.0 million (2015: EUR 0.2 million) was recognised for the LTIP with former shareholders in 2016, EUR 0.0 million of which for Eckhard Schultz (2015: EUR 0.2 million) and EUR 0.0 million for Holger Hentschel (2015: EUR 0.0 million).

T47 – Remuneration and benefits earned

	Thomas Hegel CEO				*Eckhard Schultz CFO*				*Holger Hentschel COO*			
€ thousand	**2016**	*2016 min.*	*2016 max.*	*2015*	**2016**	*2016 min.*	*2016 max.*	*2015*	**2016**	*2016 min.*	*2016 max.*	*2015*
Fixed remuneration [2]	520	520	520	460	468	468	468	414	325 [1]	325	325	300
Additional benefits	36	36	36	40	22	22	22	19	28	28	28	20
TOTAL FIXED REMUNERATION COMPONENTS	**556**	**556**	**556**	**500**	**490**	**490**	**490**	**433**	**353**	**353**	**353**	**320**
One-year variable remuneration (STI) [2]	325	0	423	288	312	0	406	276	225 [1]	0	293	200
Total multi-year variable remuneration (LTI/LTIP)	215	0	507	194	200	0	473	181	151	0	358	127
LTI 2013 (until 2016)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2014 (until 2017)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2015 (until 2018) [2]	0	0	0	194	0	0	0	181	0	0	0	127
LTI 2016 (until 2019)	215	0	507	0	200	0	473	0	151 [1]	0	358	0
LTIP former shareholders	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL VARIABLE REMUNERATION COMPONENTS	**540**	**0**	**930**	**482**	**512**	**0**	**879**	**457**	**376**	**0**	**651**	**327**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**1,096**	**556**	**1,486**	**982**	**1,002**	**490**	**1,369**	**891**	**729**	**353**	**1,004**	**647**
Pension costs	0	0	0	0	20	20	20	20	10	10	10	11
TOTAL REMUNERATION	**1,096**	**556**	**1,486**	**982**	**1,022**	**510**	**1,389**	**911**	**739**	**363**	**1,014**	**658**

[1] Contract adjustment as at 1 July 2016
[2] Remuneration 2015: contract adjustments as at 1 July 2015

The amounts paid to the members of the Management Board were as follows:

T48 – Remuneration and benefits paid

	Thomas Hegel CEO		*Eckhard Schultz CFO*		*Holger Hentschel COO*	
€ thousand	**2016**	*2015*	**2016**	*2015*	**2016**	*2015*
Fixed remuneration [2]	520	460	468	414	325	300
Additional benefits	36	40	22	19	28	20
TOTAL FIXED REMUNERATION COMPONENTS	**556**	**500**	**490**	**433**	**353**	**320**
One-year variable remuneration (STI) [1]	336	250	323	240	230	200
Multi-year variable remuneration (LTI/LTIP)	2,533	2,238	2,053	1,804	340	255
LTI 2013 (until 2016)	100	100	93	93	50	50
LTI 2014 (until 2017)	100	0	93	0	67	0
LTI 2015 (until 2018) [2]	0	0	0	0	0	0
LTI 2016 (until 2019)	0	0	0	0	0	0
LTIP former shareholders	2,333	2,138	1,867	1,711	223	205
TOTAL VARIABLE REMUNERATION COMPONENTS	**2,869**	**2,488**	**2,376**	**2,044**	**570**	**455**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**3,426**	**2,989**	**2,866**	**2,477**	**923**	**775**
Pension costs	0	0	20	20	10	11
TOTAL REMUNERATION	**3,426**	**2,989**	**2,886**	**2,497**	**933**	**786**

[1] Final payment for previous financial year
[2] Remuneration 2015: contract adjustments as at 1 July 2015

The total remuneration of the Management Board in 2016 was as follows:

T49 – Total remuneration

	Thomas Hegel CEO		*Eckhard Schultz CFO*		*Holger Hentschel COO*		*Total*	
€ thousand	**2016**	*2015*	**2016**	*2015*	**2016**	*2015*	**2016**	*2015*
Fixed remuneration [2]	520	460	468	414	325[1]	300	1,313	1,174
Additional benefits	36	40	22	19	28	20	86	79
TOTAL FIXED REMUNERATION COMPONENTS	**556**	**500**	**490**	**433**	**353**	**320**	**1,399**	**1,253**
One-year variable remuneration (STI) [2]	325	288	312	276	225[1]	200	862	764
Multi-year variable remuneration (LTI) [2,3]	387	194	362	181	284[1]	127	1,033	502
TOTAL VARIABLE REMUNERATION COMPONENTS	**712**	**482**	**674**	**457**	**509**	**327**	**1,895**	**1,266**
TOTAL REMUNERATION	**1,268**	**982**	**1,164**	**890**	**862**	**647**	**3,294**	**2,519**

[1] Contract adjustment as at 1 July 2016
[2] Remuneration 2015: contract adjustments as at 1 July 2015
[3] Remuneration 2016: includes LTI remuneration for 2016 and 2017

No loans or advances were granted or extended to the members of the Management Board in the 2016 financial year.

RETIREMENT BENEFITS

Company pension scheme

Effective 1 February 2013, LEG Immobilien AG assumed the occupational pension commitment for the Management Board member Holger Hentschel from LEG Wohnen NRW GmbH (in accordance with section 4(2) no. 1 of the Betriebsrentengesetz (BetrAVG – German Occupational Pensions Act)). This grants a pension including benefits for surviving dependents. The amount of benefits is dependent on eligible service and pensionable remuneration. The pension will be paid when Mr Hentschel reaches 65 years of age. A pensionable basic salary of EUR 92,676 is assumed. The corresponding provision amounted to EUR 353,698 as at 31 December 2016 (2015: EUR 300,358). The recognised staff costs in 2016 amounted to EUR 10 thousand (2015: EUR 11 thousand).

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 396,773. There are also benefits from profit participation.

In 2013 the Supervisory Board resolved to establish an employer-financed pension commitment for Eckhard Schultz and Holger Hentschel via a provident fund by way of a defined contribution plan. The additional payments by LEG Immobilien AG are limited to a maximum of 50% of the standard contributions to the statutory pension scheme. In case of death, the provident fund will make a one-time, lump-sum capital payment to the respective dependents.

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

When 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 Thomas Hegel or Eckhard Schultz as at 31 December 2016.

EARLY TERMINATION BENEFITS

Severance pay

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

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

Death benefits

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

REMUNERATION SYSTEM OF THE SUPERVISORY BOARD

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

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

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

In accordance with the Articles of Association of LEG Immobilien AG, the following applies in accordance with Article 8.10:

The Supervisory Board members receive a fixed annual basic remuneration of EUR 50,000.00. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson receives one-and-a-half times this amount. Members of a Supervisory Board committee receive an additional fixed annual remuneration of EUR 15,000.00; the committee chairperson receives double this. Each member receives an additional payment of EUR 2,000.00 for each Supervisory Board or committee meeting where physical attendance is required. No remuneration is paid for membership or chairing of the nomination committee.

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

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

By letter dated 30 November 2015, Jürgen Schulte-Laggenbeck informed LEG Immobilien AG that he resigned his position as a member of the Supervisory Board effective from 31 December 2015. Based on the recommendation of the Nomination Committee of the Supervisory Board, the Annual General Meeting elected Dr Claus Nolting as a successor to Jürgen Schulte-Laggenbeck on 19 May 2016.

The total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.6 million in 2016 (2015: EUR 0.5 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2016 financial year.

T50 – Breakdown of Supervisory Board remuneration
Remuneration paid or to be paid to the members of the Supervisory Board for the fiscal year 2016

in €	*Supervisory Board*		*Audit Committee*		*Executive Committee*		*Nomination Committee*	*Total*
Name of member	*Remuneration*	*Attendance Fee*	*Remuneration*	*Attendance Fee*	*Remuneration*	*Attendance Fee*		
	100,000	8,000			30,000	4,000	0	142,000
Michael Zimmer	Chairman				Chairman		Chairman	
	75,000	8,000	30,000	8,000	15,000	6,000	0	142,000
Stefan Jütte	Deputy Chairman		Chairman		Deputy Chairman		Deputy Chairman	
	50,000	6,000			15,000	6,000	0	77,000
Dr Johannes Ludewig	Member				Member		Member	
	50,000	8,000	15,000	8,000	0	0		81,000
Dr Jochen Scharpe	Member		Deputy Chairman		Substitute member			
	50,000	6,000	15,000	8,000				79,000
Natalie Hayday	Member		Member					
	30,833	4,000						34,833
Dr Claus Nolting (from 19.05.2016)	Member [1]							
TOTAL	**355,833**	**40,000**	**60,000**	**24,000**	**60,000**	**16,000**		**555,833**

[1] Remuneration on a pro rata basis

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 315 PARA. 5 HGB AND 289 A 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 and (iv) information on the appointment of women to managerial positions.

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 2016:

"The Management Board and Supervisory Board of LEG Immobilien AG (the "Company") hereby declare that the Company has complied with the recommendations of the "Government Commission for the German Corporate Governance Code" (version dated 5 May 2015, "Code") published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 12 June 2015 without exception since submitting its last declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) in November 2015.

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

Dusseldorf, November 2016

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

RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES EXCEEDING STATUTORY REQUIREMENTS

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

Promotion of local social projects

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

LEG NRW Tenant Foundation

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

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/or property holdings. Further information can be found on page 65.

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. At *www.immo-initiative.de/en*, the Corporate Governance Initiative of the German Real Estate Industry Association published a "Corporate Governance Code of the German Real Estate Industry" (as at June 2014, "ICGK"), which contains recommendations going beyond the German Corporate Governance Code. The Supervisory Board and the Management Board of LEG Immobilien AG agree that – with the exception of the provisions of item 5.3.2i – the recommendations of the ICGK should also be complied with.

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

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 created 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 17 June 2016. Among other things, these stipulate that certain transactions of particular significance require the prior approval of the Supervisory Board or one of its committees. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all issues of strategy, planning, business performance, the risk situation, risk management and compliance relevant to the company. The Management Board performs its management duties as a collective body. Regardless of their overall responsibility, the individual members of the Management Board manage the departments assigned to them in the context of Management Board resolutions on their own responsibility. The allocation of duties among the members of the Management Board is based on the assignment plan.

The Supervisory Board

The Supervisory Board has six members and monitors and advises the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. Its duties and rights are determined by the legal provisions, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board most recently amended the Rules of Procedure at its ordinary meeting on 25 March 2014. Jürgen Schulte-Laggenbeck resigned from the Supervisory Board from 31 December 2015. Dr Claus Nolting was elected as the successor to Jürgen Schulte-Laggenbeck at the 2016 Annual General Meeting.

Cooperation between the Management Board and the Supervisory Board

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

The Chairman of the Supervisory Board maintains regular contact with the Management Board, particularly with the Chairman of the Management Board, and advises 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 three committees in the 2016 financial year: the Executive Committee, the Nomination Committee and the Audit Committee. Further committees can be formed if required.

Executive Committee of the Supervisory Board

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

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

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

- Transactions with members of the Management Board in accordance with section 112 AktG
- Approval of transactions with a value in excess of EUR 25,000 between the company or one of its Group companies on the one hand and a member of the Management Board or persons or undertakings related to a member of the Management Board on the other
- Consent to other activities by a member of the Management Board in accordance with section 88 AktG and approval of other additional employment, in particular holding supervisory board mandates and mandates in similar executives bodies of companies outside the Group
- Granting loans to the persons named under sections 89, 115 AktG
- Approval of contracts with Supervisory Board members in accordance with section 114 AktG
- Any other approval required in accordance with the Articles of Association of the company or the Rules of Procedure for the Management Board for measures by the Management Board if the matter cannot be delayed and a resolution by the Supervisory Board cannot be passed in a timely manner

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte and Dr Johannes Ludewig. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee.

Nomination Committee

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

Audit Committee

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

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

Detailed information on the work of the Supervisory Board and the composition of the committees of the Supervisory Board in the 2016 financial year can be found in the Report of the Supervisory Board from page 37 of this annual report.

TARGETS FOR THE PARTICIPATION OF WOMEN

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

Supervisory Board

At its meeting on 2 June 2015 the Supervisory Board, based on the six-person Supervisory Board of LEG Immobilien AG and given the current composition of the Supervisory Board, resolved a ratio of 16.6% (corresponds to one woman on the six-person Supervisory Board).

The deadline for achieving this goal was set as 31 December 2016. This goal had been achieved. In its meeting on 8 March 2017, the Supervisory Board intends to discuss the goal again und to leave it unchanged. The deadline for achieving the goals shall be set as 31 December 2021.

Management Board

Also at its meeting on 2 June 2015, the Supervisory Board of LEG Immobilien AG set a goal for the share of women on the Management Board of 0.0%, in particular on account of the extension of Management Board appointments until 2021 (Mr Hegel and Mr Schultz) and 2019 (Mr Hentschel) just in March 2015. The goal was therefore for the current status. The deadline for achieving this goal was set as 31 December 2016. This goal had been achieved as there were no changes in the Management Board. In its meeting on 8 March 2017, the Supervisory Board intends to discuss the goal again und to leave it unchanged. The deadline for achieving the goals shall be set as 31 December 2021.

Management levels below Management Board

LEG Immobilien AG itself has no employees. Hence it is not possible to set goals for employees that it does not have. However, at the Management Board meeting of 17 June 2015 the Management Board of LEG Immobilien AG voluntarily set Group-wide targets for the appointment of women to management positions. A target of 30% was set for both the first and second management levels below the Management Board. The period for achieving these goals was limited until 31 December 2016. At the time of the resolution 25% of the first level of management below the Management Board and 36% of the second were women; thus the setting of goals means increasing the share of women for the first level and maintaining a minimum share for the second. This does not preclude a further increase in the share of women at this management level. In December 2016 the share of women in the first level below the Management Board had fallen to 17%, while at the second level below the Management Board it was 33%. The aim of achieving a share of women in the first level below the Management Board of at least 30% was therefore not achieved, though the target was achieved for the second level below the Management Board. The reduction in the share of women is due to the fact that two women in the first management level below the Management Board have left the company and the positions have not been reassigned due to restructuring. The Management Board is standing by its goal of a share of women of 30% in the first and second management levels below the Management Board, and is aiming to achieve this by 31 December 2021.

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-wohnen.de/en/corporation/investor-relations/corporate-governance/corporate-governance-declaration/*

TAKEOVER DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB

Composition of issued capital

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

The Authorized Capital amounts to EUR 31,384,894.00. The Contingent Capital amounts to EUR 31,384,894.00.

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 2016, BlackRock, Inc. and its affiliated companies held 12.06% of the share capital of the company, and hence also of the voting rights (notification in accordance with section 21, 22 of the German Securities Trading Act (WpHG). 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 27 March 2015.

Furthermore, as of 31 December 2016, Sun Life Financial Inc. and its affiliated companies held 10.03% of the share capital of the company, and hence also of the voting rights (notification in accordance with section 21, 22 of the German Securities Trading Act (WpHG). As a material investor, Sun Life Financial 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 14 July 2016.

Bearers of shares with special rights granting powers of control

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

Rules for the appointment and dismissal of members of the Management Board and amendments to the Articles of Association

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

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

Authority of the Management Board to issue shares

The Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company by up to a total of EUR 31,384,894.00 by issuing up to 31,384,894 new shares until 18 May 2021.

The share capital is contingently increased by up to EUR 31,384,894.00 through the issue of up to 31,384,894 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.

Furthermore, in January 2017 LEG issued a corporate bond with a volume of EUR 500 million. In the event of a change of control, the bondholders shall be entitled to require the company to redeem their bonds at 101% of the nominal value and to be compensated for accrued and unpaid interest.

A change of control in accordance with these conditions is considered to have taken place if a person or persons acting in concert hold 30% or more of the shares in LEG Immobilien AG or are otherwise able to exercise control over the company.

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

There are also various company agreements with cooperation partners subject to a change of control among the shareholders of LEG Immobilien AG. Thus B&O Service und Messtechnik AG – as a non-controlling shareholder in TechnikServicePlus GmbH (TSP) – has the right to either transfer its shares in TSP to LEG Immobilien AG or to acquire the shares held by LEG Immobilien AG in the event of a change of control. Either of these transactions would be in return for payment of a share price to be formally determined plus any compensation payment for the early termination of long-term agreements.

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.

Dusseldorf, 7 March 2017

LEG Immobilien AG, Dusseldorf

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

Chapter

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T51 – Consolidated statement of financial position
Assets

€ million	*Notes*	**31.12.2016**	*31.12.2015*
Non-current assets		**8,164.5**	**6,898.4**
Investment properties	E.1	7,954.9	6,398.5
Prepayments for investment properties		27.3	203.1
Property, plant and equipment	E.2	63.2	59.1
Intangible assets	E.3	77.0	63.1
Investments in associates		9.1	8.8
Other financial assets	E.4	2.8	148.8
Receivables and other assets	E.5	13.9	2.7
Deferred tax assets	E.13	16.3	14.3
Current assets		**214.4**	**290.0**
Real estate inventory and other inventory		3.9	5.1
Receivables and other assets	E.5	41.5	30.5
Income tax receivables	E.13	2.3	1.6
Cash and cash equivalents	E.6	166.7	252.8
Assets held for sale	E.7	**57.0**	**6.7**
TOTAL ASSETS		**8,435.9**	**7,195.1**

Equity and liabilities

€ million	*Notes*	**31.12.2016**	*31.12.2015*
Equity	E.8	**3,436.7**	**2,985.0**
Share capital		63.2	62.8
Capital reserves		611.2	779.2
Cumulative other reserves		2,740.1	2,125.8
Equity attributable to shareholders of the parent company		3,414.5	2,967.8
Non-controlling interests		22.2	17.2
Non-current liabilities		**4,092.6**	**3,419.3**
Pension provisions	E.9	154.8	142.8
Other provisions	E.10	12.0	11.4
Financing liabilities	E.11	3,222.3	2,745.6
Other liabilities	E.12	115.4	106.7
Tax liabilities	E.13	–	8.5
Deferred tax liabilities	E.13	588.1	404.3
Current liabilities		**906.6**	**790.8**
Pension provisions	E.9	6.9	7.0
Other provisions	E.10	15.8	19.1
Provisions for taxes	E.13	0.4	0.4
Financing liabilities	E.11	552.0	496.0
Other liabilities	E.12	316.5	253.1
Tax liabilities	E.13	15.0	15.2
TOTAL EQUITY AND LIABILITIES		**8,435.9**	**7,195.1**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T52 – Consolidated statement of comprehensive income

€ million	*Notes*	**01.01.–31.12.2016**	*01.01.–31.12.2015*
Net rental and lease income	F.1	**373.1**	**320.5**
Rental and lease income		763.3	644.6
Cost of sales in connection with rental lease income		–390.2	–324.1
Net income from the disposal of investment properties	F.2	**7.6**	**3.6**
Income from the disposal of investment properties		159.0	112.3
Carrying amount of the disposal of investment properties		–150.3	–107.0
Cost of sales in connection with disposed investment properties		–1.1	–1.7
Net income from the remeasurement of investment properties	F.3	**616.6**	**285.5**
Net income from the disposal of real estate inventory		**–2.4**	**–1.2**
Income from the real estate inventory disposed of		1.9	1.0
Carrying amount of the real estate inventory disposed of		–1.2	–0.7
Costs of sales of the real estate inventory disposed of		–3.1	–1.5
Net income from other services	F.4	**3.7**	**0.9**
Income from other services		10.3	8.9
Expenses in connection with other services		–6.6	–8.0
Administrative and other expenses	F.5	**–78.2**	**–58.1**
Other income		**16.4**	**0.9**
OPERATING EARNINGS		**936.8**	**552.1**
Interest income		0.9	0.6
Interest expenses	F.6	–177.2	–181.5
Net income from investment securities and other equity investments		2.2	4.3
Net income from associates		0.3	0.0
Net income from the fair value measurement of derivatives	F.7	16.6	–75.8
EARNINGS BEFORE INCOME TAXES		**779.6**	**299.7**
Income taxes	F.8	–200.4	–82.0
NET PROFIT OR LOSS FOR THE PERIOD		**579.2**	**217.7**
Change in amounts recognised directly in equity			
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		**–5.0**	**31.2**
Change in unrealised gains/(losses)		–6.5	41.5
Income taxes on amounts recognised directly in equity		1.5	–10.3
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		**–9.7**	**8.4**
Change in unrealised gains/losses		–13.9	12.1
Income taxes on amounts recognised directly in equity		4.2	–3.7
TOTAL COMPREHENSIVE INCOME		**564.5**	**257.3**
Net profit or loss for the period attributable to:			
Non-controlling interests		1.1	–0.1
Parent shareholders		578.1	217.8
Total comprehensive income attributable to:			
Non-controlling interests		1.1	–0.1
Parent shareholders		563.4	257.4
EARNINGS PER SHARE (BASIC) IN €	F.9	**9.17**	**3.74**
EARNINGS PER SHARE (DILUTED) IN €	F.9	**8.28**	**4.69**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

T53 – 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 01.01.2015	**57.1**	**578.9**	**1,943.7**	**–38.5**	**–65.1**	**2,476.1**	**14.3**	**2,490.4**
Net profit or loss for the period	–	–	217.8	–	–	217.8	–0.1	217.7
Other comprehensive income	–	–	–	8.4	31.2	39.6	–	39.6
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**217.8**	**8.4**	**31.2**	**257.4**	**–0.1**	**257.3**
Change in consolidated companies	–	–	7.7	–	–	7.7	6.8	14.5
Capital increase	5.7	370.1	171.2	–	–	547.0	0.7	547.7
Withdrawals from reserves	–	–170.0	–	–	–	–170.0	–0.2	–170.2
Change in put options	–	–	–38.8	–	–	–38.8	–	–38.8
Distributions	–	–	–111.8	–	–	–111.8	–4.3	–116.1
Contribution in connection with Management and Supervisory Board	–	0.2	–	–	–	0.2	–	0.2
AS OF 31.12.2015	**62.8**	**779.2**	**2,189.8**	**–30.1**	**–33.9**	**2,967.8**	**17.2**	**2,985.0**
AS OF 01.01.2016	**62.8**	**779.2**	**2,189.8**	**–30.1**	**–33.9**	**2,967.8**	**17.2**	**2,985.0**
Net profit or loss for the period	–	–	578.1	–	–	578.1	1.1	579.2
Other comprehensive income	–	–	–	–9.8	–4.9	–14.7	–	–14.7
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**578.1**	**–9.8**	**–4.9**	**563.4**	**1.1**	**564.5**
Change in consolidated companies/other	–	–	–	–	–	–	11.4	11.4
Capital increase	0.4	32.0	200.0	–	–	232.4	1.2	233.6
Withdrawals from reserves	–	–200.0	–	–	–	–200.0	–0.8	–200.8
Change in put options	–	–	–7.2	–	–	–7.2	–	–7.2
Distributions	–	–	–141.9	–	–	–141.9	–7.9	–149.8
Contribution in connection with Management and Supervisory Board	–	–	–	–	–	–	–	–
AS OF 31.12.2016	**63.2**	**611.2**	**2,818.8**	**–39.9**	**–38.8**	**3,414.5**	**22.2**	**3,436.7**

See section E.8 of the notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

T54 – Consolidated statement of cash flows

€ million	*Notes*	**01.01. – 31.12.2016**	*01.01. – 31.12.2015*
Operating earnings		936.8	**552.1**
Depreciation on property, plant and equipment and amortisation on intangible assets		10.5	9.0
(Gains)/Losses from the remeasurement of investment properties		–616.6	–285.5
(Gains)/Losses from the disposal of assets held for sale and investment properties		–8.7	–5.3
(Gains)/losses from the disposal of intangible assets and property, plant and equipment		0.2	–
(Decrease)/Increase in pension provisions and other non-current provisions		–1.3	–6.0
Other non-cash income and expenses		–9.2	5.9
(Decrease)/Increase in receivables, inventories and other assets		–6.8	–3.3
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions		–2.1	–7.0
Interest paid		–83.4	–88.2
Interest received		0.2	0.7
Received income from investments		2.1	4.4
Taxes received		0.2	1.5
Taxes paid		–14.9	–11.4
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**207.0**	**166.0**
Cash flow from investing activities			
Investments in investment properties		–629.2	–421.9
Proceeds from disposals of non-current assets held for sale and investment properties		63.6	80.6
Investments in intangible assets and property, plant and equipment		–7.8	–3.1
Proceeds from disposals of intangible assets and property, plant and equipment		0.0	0.1
Acquisition of shares in consolidated companies		–104.8	–151.6
Proceeds from disposals of investments in affiliated consolidated entities		112.5	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**–565.7**	**–495.9**
Cash flow from financing activities			
Borrowing of bank loans		673.2	1,281.1
Repayment of bank loans		–249.4	–1,086.9
Repayment of lease liabilities		–4.3	–3.8
Capital contribution		–	375.8
Other payments		–9.3	–7.9
Distribution to shareholders		–141.9	–111.8
Other proceeds		4.3	5.4
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**272.6**	**451.9**
Change in cash and cash equivalents		**–86.1**	**122.9**
Cash and cash equivalents at beginning of period		252.8	129.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**166.7**	**252.8**
Composition of cash and cash equivalents			
Cash in hand, bank balances		166.7	252.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**166.7**	**252.8**

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 129,636 units (residential and commercial) on 31 December 2016.

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

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

These consolidated financial statements were approved for publication by LEG Immo's Management Board on 7 March 2017.

2. Consolidated financial statements

The consolidated financial statements of the LEG Group 31 December 2016 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 accounting for assets and liabilities at amortised cost. Exceptions to this are investment property, securities held for sale and derivative financial instruments, which are carried at their fair value as at the end of the reporting period.

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

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

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

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

B. NEW ACCOUNTING STANDARDS

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

The IASB has published the following IFRSs and IFRICs that are not yet effective and that will be relevant for the LEG-Group: *Table* **T55**

LEG Immo does not adopt new standards early.

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 is effective for the first time for reporting periods beginning on or after 1 January 2018. It was endorsed by the EU in November 2016. The adoption of IFRS 9 is expected to result in changes to the accounting of financial instruments at the LEG Group. This relates in particular to the classification and measurement of financial assets. No effects are expected in the classification and measurement of financial liabilities. As a result of the amended regulations on the presentation of impairment of financial instruments, loss allowances will generally increase under the expected loss model compared to the previously used incurred loss model. There is simplified effectiveness testing in hedge accounting. A significant effect on hedge accounting is not expected. The amendments to the accounting provisions described above will also mean additional disclosures in the notes. The LEG Group is currently reviewing the specific implications of the standard.

In May 2014 the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the previous IFRS provisions on revenue recognition: IAS 18 and IAS 11. The goal of the new standard on revenue recognition is to compile the many regulations already contained in various standards and interpretations into a uniform model of revenue recognition. The standard establishes a five-step model to help determine the amount and timing of revenue recognition. Other changes can arise on account of the new regulations for revenue recognition on transfer of control, multi-component transactions with revenue recognised over the period of performance and extended disclosures in the notes. The standard is effective for reporting periods beginning on or after 1 January 2018. The LEG Group is currently reviewing the specific implications of the standard. No effect on the recognition of rental revenue is expected at this time. Beyond this, there are expected to be minor changes in the reporting of individual allocable operating costs, which will lead to a reduction in the revenue reported and the corresponding cost of sales. There will therefore be no effect on the results of operations.

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

T55 – Published IFRS and IFRIC that are not yet effective

	Content	*Effective for reporting periods beginning on*
New standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	01.01.2018
IFRS 15	"Revenue from Contracts with Customers"	01.01.2018
IFRS 16	"Leases"	01.01.2019*
Amendments to standards		
IAS 7	"Disclosure Initiative"	01.01.2017*
IAS 12	"Recognition of deferred tax assets for unrealised losses"	01.01.2017*
IFRS 15	"Clarifications to IFRS 15 Revenue from Contracts with Customers"	01.01.2018*
IFRS 2	"Classification and Measurement of Share-based Payment Transactions"	01.01.2018*
IAS 40	"Transfers of Investment Property"	01.01.2018*

* (not yet endorsed)

Subject to EU endorsement, the standard is effective for reporting periods beginning on or after 1 January 2019. The LEG Group is currently reviewing the implications of the standard as part of a project. The recognition of previous operating leases "on-balance" will mean an improvement in FFO and an increase in LTV. This effect can be countered by exercising the option for low-value leases. LEG has not yet made a final decision on whether or not to apply the exception for low-value assets. Similarly, the amended provisions for embedded leases can give rise to reductions in the area of the heat contracting systems previously classified as finance leases. Overall, however, the LEG Group is currently assuming that the effects from the recognition of existing operating leases will more than compensate for any offsetting effects that may occur, thereby resulting in an increase in total assets. The effects on results of operations are currently classified as low.

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

The IFRSs and interpretations that affect the LEG Immo consolidated financial statements are explained in more detail below. The other IFRSs and interpretations applied for the first time had no material effect on the consolidated financial statements. *Table* **T56**

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. The amendments are effective for reporting periods beginning on 1 January 2016. This does not affect the net assets, financial position or results of operations. However, there are changes in the notes.

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 LEG Immo controls within the meaning of IFRS 10.

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

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

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

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

T56 – Amended standards and new interpretations effective for the first time

	Content	*Effective for reporting periods beginning on*
Amendments to standards		
IFRS 11	"Joint operations"	01.01.2016
IAS 16 / IAS 38	"Property, Plant and Equipment and Intangible Assets"	01.01.2016
IAS 27	"Separate Financial Statements"	01.01.2016
IAS 1	"Disclosure Initiative"	01.01.2016
IFRS 10 / IFRS 12 / IAS 28	"Applying the Consolidation Exception"	01.01.2016
IAS 19	"Defined Benefit Plans: Employee Contributions"	01.02.2015
Various standards	Annual Improvements to IFRSs 2010–2012	01.02.2015
Various standards	Annual Improvements to IFRSs 2012–2014	01.01.2016

b) Associates

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

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

2. Changes in the Group

a) Subsidiaries

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

T57 – Number of consolidated subsidiaries

	2016	*2015*
AS OF 01.01.	54	48
Additions	10	10
Disposals	–3	–5
AS OF 31.12.	61	54

In the course of various portfolio acquisitions (see section D.1) four companies were acquired and included in consolidation for the first time as at 1 January 2016. Some of the acquisitions are business combinations (see section C.3). Furthermore, LEG Achte Grundstücksverwaltungs GmbH and LEG Neunte Grundstücksverwaltungs GmbH were founded and included in consolidation for the first time as at 1 July 2016.

LEG Wohnen Service GmbH was consolidated for the first time as at 31 March 2016. The company was established as part of the reorganisation of the LEG Group's operating platform.

LEG Marl GmbH (formerly Deutsche Annington Wohnungsgesellschaft III mbH) was included in consolidation for the first time as at 1 April 2016, followed by Grainger Recklinghausen Portfolio one GmbH and Grainger Recklinghausen Portfolio two GmbH as at 1 June 2016. All shares in LEG Marl GmbH were sold and the company deconsolidated as at 30 September 2016.

Johannismarkt Grundstücksgesellschaft mbH was sold and deconsolidated as at 31 May 2016.

Jupp Grundstücksgesellschaft mbH was sold and deconsolidated as at 31 December 2016.

b) Associates

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

T58 – Number of associates accounted for using the equity method

	2016	*2015*
AS OF 01.01.	3	4
Additions/Disposals	–1	–1
AS OF 31.12.	2	3

3. Business combinations

Business combination 1

On 30 November 2015, LEG Immo signed a purchase agreement with Sahle Wohnen GmbH & Co. KG to acquire 94.9% of shares in SW Westfalen Invest GmbH and three other asset purchase agreements, consisting of a property portfolio of 3,539 residential units. The portfolio is distributed over twelve different locations in NRW, while its most important local markets are Detmold (1,151 units), Bielefeld (950 units) and Lippstadt (315 units). 23 employees (FTEs) were taken on in the context of the transaction. Following antitrust approval, the transaction was closed on 1 January 2016.

As at 1 January 2016 the acquisition of these companies is treated as a business combination as defined by IFRS 3 as significant business processes had been acquired.

The purchase price allocation presented in the notes to the consolidated financial statements as at 31 December 2015 was still provisional with respect to the following items:

- Measurement of investment property
- Total consideration
- Contingent liabilities
- Operating costs
- Accounting for leases
- Deferred taxes

After the conclusion of the purchase price allocation, adjustments are made retrospectively as at the acquisition date of 1 January 2016. The following changes were made in comparison to the provisional purchase price allocation:

— Measurement of investment property: The improved data situation, particularly with regard to the buildings' technical condition and rental agreements, led to a fair value adjustment of EUR −4.1 million to currently EUR 200.9 million.

— Deferred taxes and scope of the business combination: After the evaluation of the transaction in terms of income tax and contractual agreements was completed, the properties' carrying amounts for tax purposes were increased. This will result in higher tax-reducing depreciation in future and contributes significantly to the decline in deferred taxes from EUR −22.0 million (deferred tax liability) to EUR 3.6 million (deferred tax asset). Furthermore, the liability for the put option was recognised as a separate transaction (EUR 8.2 million).

— Operating costs: The net amount of receivables and liabilities from not yet invoiced operating costs for the period before the acquisition comes to EUR −0.5 million and accordingly reduces the net assets acquired. As it was agreed that net invoicing amounts for periods before the acquisition date are to be borne by the seller, there is no effect on goodwill (decrease in cash purchase price component of EUR 0.5 million).

The purchase price allocation was finalised as at 30 September 2016. The consideration for the business combination breaks down as follows:

T59 – Consideration

€ million	*01.01.2016 final*	*01.01.2016 provisional*	*Change*
Net purchase price	201.1	201.6	−0.5
TOTAL CONSIDERATION	**201.1**	**201.6**	**−0.5**

The purchase price can be allocated to the assets and liabilities acquired, measured at fair value, as follows:

T60 – Purchase price allocation

€ million	*01.01.2016 final*	*01.01.2016 provisional*	*Change*
Investment properties	200.9	205.0	−4.1
Deferred tax assets	3.6	–	3.6
Other assets	0.6	–	0.6
TOTAL ASSETS	**205.1**	**205.0**	**0.1**
Financing liabilities	−11.0	−11.0	–
Liabilities for put options	–	−8.2	8.2
Deferred tax liabilities	–	−22.0	22.0
Other financing liabilities	−0.6	–	−0.6
Other liabilities	−0.6	–	−0.6
TOTAL LIABILITIES	**−12.2**	**−41.2**	**29.0**
Net assets at fair value	192.9	163.8	29.1
Non-controlling interests	6.8	5.7	1.1
Net assets at fair value without non-controlling interests	186.1	158.1	28.0
CONSIDERATION	**201.1**	**201.6**	**−0.5**
GOODWILL	**15.0**	**43.5**	**−28.5**

The synergies anticipated from the business combination essentially consist of planned cost savings, additional income potential and tax savings.

Business combination 2

On 22 December 2015, LEG Immo concluded a purchase agreement with Vonovia SE regarding the acquisition of 13,570 residential units. The purchase price was around EUR 600 million, equating to an initial rental yield of 8.0%. The portfolio is spread over various locations in and on the border of North Rhine-Westphalia. 26 employees were taken on in the wake of the transaction. Following antitrust approval, the transaction was closed on 1 April 2016.

As at 1 April 2016, the acquisition of the company was treated as a business combination as defined by IFRS 3 as significant business processes had been acquired. The acquisition was a combined asset and share deal.

The purchase price allocation presented in the notes to the consolidated financial statements as at 31 March 2016 was still provisional with respect to the following items:

— Measurement of investment property
— Total consideration
— Contingent liabilities
— Operating costs
— Accounting for leases
— Deferred taxes

After the conclusion of the purchase price allocation, adjustments are made retrospectively as at the acquisition date of 1 April 2016. The following changes were made in comparison to the provisional purchase price allocation:

— Measurement of investment property: The improved data situation, particularly with regard to the buildings' technical condition and rental agreements, led to a fair value adjustment of EUR 5.4 million to currently EUR 610.0 million.

— Deferred taxes and scope of business combination: The finalisation of the property valuation led to an increase in deferred tax liabilities (net) of EUR –0.7 million to EUR –8.1 million at the time of acquisition. Furthermore, the liability for the put option was recognised as a separate transaction (EUR 5.1 million).

— Operating costs: The net amount of receivables and liabilities from not yet invoiced operating costs for the period before the acquisition comes to EUR –3.3 million and accordingly reduces the net assets acquired. As it was agreed that net invoicing amounts for periods before the acquisition date are to be borne by the seller, an offsetting receivable was recognised in the same amount and there is no effect on goodwill.

— Purchase price: An additional purchase price payment of EUR 1.7 million was payable for bank balances assumed.

The purchase price allocation is final as at 31 December 2016. The consideration for the business combination breaks down as follows:

T61 – Consideration

€ million	*01.04.2016 final*	*01.04.2016 provisional*	*Change*
Net purchase price	590.8	589.1	1.7
TOTAL CONSIDERATION	**590.8**	**589.1**	**1.7**

The purchase price can be allocated to the assets and liabilities acquired, measured at fair value, as follows:

T62 – Purchase price allocation

€ million	*01.04.2016 final*	*01.04.2016 provisional*	*Change*
Investment properties	610.0	604.6	5.4
Property, plant and equipment	0.3	0.1	0.2
Deferred tax assets	4.3	–	4.3
Inventories in progress (IFRIC 21)	1.3	–	1.3
Receivables from uninvoiced operating costs	0.1	2.9	–2.8
Other receivables and assets	3.5	0.2	3.3
Cash and cash equivalents	1.7	1.7	–
TOTAL ASSETS	**621.2**	**609.5**	**11.7**
Other financing liabilities	–	–5.1	5.1
Pension provisions	–0.1	–0.1	–
Deferred tax liabilities	–12.4	–7.4	–5.0
Other provisions	–0.3	–0.3	–
Liabilities real estate tax (IFRIC 21)	–1.3	–	–1.3
Liabilities from uninvoiced operating costs	–3.3	–2.8	–0.5
Other liabilities	–0.6	–0.2	–0.4
TOTAL LIABILITIES	**–18.0**	**–15.9**	**–2.1**
Net assets at fair value	603.2	593.6	9.6
Non-controlling interests	4.7	4.7	–
Net assets at fair value without non-controlling interests	598.5	588.9	9.6
CONSIDERATION	**590.8**	**589.1**	**1.7**
GOODWILL (+) / INCOME FROM FIRST-TIME CONSOLIDATION (–)	**–7.7**	**0.2**	**–7.9**

The transaction costs of the business combination amount to EUR 33.4 million and essentially include real estate transfer tax. Non-controlling interests in LEG Marl GmbH (formerly: Deutsche Annington WG III mbH) amount to 5.1% and were measured at the proportionate share of the recognised net assets acquired.

If the portfolio had already been acquired as at 1 January 2016, additional income from property management of around EUR 12 million would have been generated.

The business acquisition results in income from first-time consolidation as a result of the market value of the properties being higher than the purchase price and as a result of a real estate transfer tax refund. This is reported under other income in the statement of comprehensive income.

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 2016 (IFRS 12.10 et seq.) can be found in section J.

The direct and indirect shares of capital held by LEG Immo in the subsidiaries are also equal to its shares of the voting rights. The companies not included in consolidation are not considered material in terms of the key performance indicators net profit for the year, total assets and revenue, and are therefore not included in the consolidated group.

b) Disclosures on subsidiaries with significant non-controlling interests

The financial information on significant, non-controlling interests in subsidiaries is summarised below (IFRS 12. B10). Intragroup transactions were not eliminated in the amounts disclosed.

EnergieServicePlus GmbH is the only subsidiary with significant non-controlling interests as at 31 December 2016.

EUR 0.0 million of consolidated net income relates to the significant non-controlling interests of Energie ServicePlus GmbH in 2016. The carrying amount in the Group recognised for the non-controlling interests in EnergieServicePlus GmbH as at 31 December 2016 was EUR 2.0 million.

T63 – Statement of financial position EnergieServicePlus GmbH

	EnergieServicePlus GmbH	
€ million	**2016**	*2015*
Non-current		
Assets	3.2	1.8
Liabilities	–4.0	–0.8
Non-current net assets	–0.8	1.0
Current		
Assets	9.3	1.2
Liabilities	–5.4	–1.0
Current net assets	3.9	0.2

T64 – Statement of profit or loss EnergieServicePlus GmbH

	EnergieServicePlus GmbH	
€ million	**2016**	*2015*
Revenue/other operating income	11.1	2.1
Earnings before income taxes	0.1	0.0
Net profit from continued operations	0.1	0.0
Net profit	0.1	0.0
TOTAL COMPREHENSIVE INCOME	**0.1**	**0.0**
Attributable to: interests without significant influence	0.1	0.0
Paid dividend to owner without significant interest	0.0	0.0

T65 – Statement of cash flows EnergieServicePlus GmbH

	EnergieServicePlus GmbH	
€ million	**2016**	*2015*
Net cash from/used in		
Operating activities	2.6	0.1
Investing activities	–1.8	–0.2
Financing activities	4.7	0.5
CHANGE IN CASH AND CASH EQUIVALENTS	**5.5**	**0.4**

c) Disclosures on associates

1. Disclosures on significant associates

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

T66 – Investments in associates

€ million	**2016**	*2015*
Recognition	9.1	8.8
Total comprehensive income	0.3	0.0

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

T67 – Material associates

	Share of capital in %	*Equity € million**	*Result € million**
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	19.4	0.7
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3.6	0.0

* For Beckumer Wohnungsgesellschaft mbH, these figures are the separate HGB equity and results as at 31 December 2016, for Kommunale Haus und Wohnen GmbH the separate HGB equity and results as at 31 December 2015.

The companies listed above perform property management activities.

The relationships with the associates are of an operational nature. All the companies listed above are recognised in the consolidated financial statements using the equity method. There are no quoted market prices.

The compiled financial information for the key associates of the Group is shown below. The financial information shown below is consistent with the amounts in the financial statements of the associates.

T68 – Statement of financial position

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*
Non-current assets	42.9	42.9	7.4	7.6	50.3	50.5
Current assets	2.0	2.0	0.6	0.5	2.6	2.5
Cash and cash equivalents	1.7	1.7	1.1	0.9	2.8	2.6
Other assets	–	–	–	–	–	–
Non-current liabilities	23.0	23.0	4.8	–	27.8	23.0
Current liabilities	4.2	4.2	0.7	5.5	4.9	9.7
Financing liabilities	–	–	–	–	–	–
Non-financing liabilities	–	–	–	–	–	–
Net assets	**19.4**	**19.4**	**3.6**	**3.5**	**23.0**	**22.9**

T69 – Statement of profit or loss

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*
Revenue	6.0	6.0	1.3	1.2	7.3	7.2
Depreciation	1.1	1.1	0.3	0.3	1.4	1.4
Interest income	–	–	–	–	–	–
Interest expense	0.6	0.6	0.1	0.1	0.7	0.7
Income taxes	–	–	–	–	–	–
Net profit from continued operations	0.7	0.7	0.0	0.0	0.7	0.7
Net profit from discontinued operations	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**0.7**	**0.7**	**0.0**	**0.0**	**0.7**	**0.7**

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

T70 – Reconciliation

	Kommunale Haus und Wohnen GmbH [1]		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*	*31.12.2016*	*31.12.2015*
Net assets of associates as of 01.01.	19.4	18.9	3.6	3.5	23.0	22.4
Net profit/loss	–	0.7	0.0	0.0	–	0.7
Addition to reserves	–	−0.1	–	–	–	−0.1
Dividend	–	−0.1	–	–	–	−0.1
Net assets of associates as of 31.12.	19.4	19.4	3.6	3.5	23.0	22.9
Group share in %	40.62	40.62	33.37	33.37	0.7	0.7
Interest in net assets of associates	7.9	7.7	1.2	1.2	9.1	8.9
Carrying amount of the investment	**7.9**	**7.7**	**1.2**	**1.2**	**9.1**	**8.9**

[1] The annual financial statements of Kommunale Haus und Wohnen GmbH as at 31 December 2016 are not yet available and therefore the figures as at 31 December 2015 have also been used for 2016.

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 asset held for sale under current assets. Its measurement is consistent with the measurement of investment property.

Mixed-used properties are separated into the owner-occupied part and the part rented to third parties to the extent that it is legally possible to separate the property in question, and neither the owner-occupied portions nor the portions rented to third parties are immaterial. The portion rented to third parties is allocated to investment property, while the owner-occupied portion is recognised under property, plant and equipment. The ratio of the respective areas is used to allocate the components.

Property is transferred from investment property when there is a change in use evidenced by the commencement of owner-occupancy or the development with a view to sale.

Unless acquired as part of a business combination, investment property is recognised at cost including incidental costs on acquisition. In accordance with the option provided by IAS 40 in conjunction with IFRS 13, investment property is subsequently recognised at fair value. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value assumes the sale of an asset (exit price). It corresponds to the (theoretical) price to be paid to the seller in the event of a (hypothetical) sale of a property at the measurement date, regardless of an entity's specific intention or ability to sell. The concept of highest and best use of the property is assumed in calculating fair value (IFRS 13.27 et seq.). This implies the use or value maximisation of the asset as far as it is physically possible, legally permissible and financially feasible. Further details can be found in section D.18. Changes in the fair value of property are recognised in profit or loss for the period in which they occur.

Prepayments for property acquisitions are presented as prepayments for investment property. Prepayments for investment property that is acquired as part of a business combination are presented as prepayments for investment property (in case of an asset deal) or as other financial assets (in case of a share deal).

Subsequent costs for extension, partial replacement or maintenance of properties (IAS 40.17) are capitalised if they constitute the replacement of parts of a unit in accordance with the component approach (IAS 40.19) and the costs can be reliably determined. In addition, such costs are capitalised if the activities will result in increased future benefits and the costs can be reliably determined. Capitalised costs are not depreciated, as depreciation is not generally recognised in connection with the fair value option provided by IAS 40.

Individual units are sold to tenants, owner-occupants and private investors as part of portfolio optimisation measures.

Fair values are calculated internally by LEG Immo. In addition to the fair values calculated internally by LEG Immo, the property portfolio was valued by an independent, third-party expert as at 31 December 2016. 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 in an orderly transaction (IAS 40.5 rev. in conjunction with IFRS 13.15).

The fair values of investment property and properties held for sale are calculated on the basis of the forecast net cash flows from property management using the discounted cash flow (DCF) method. For properties with no positive net cash flow (generally vacant buildings), the fair value is calculated using a liquidation value method. Undeveloped land is usually valued on the basis of an indirect comparison of indicative land values.

A detailed planning period of ten years was applied in DCF measurement. After the end of the tenth year, a sales value is recognised that is calculated by capitalising the forecast annual net profit for the eleventh period, taking the property-specific remaining useful life into account. It is assumed that the minimum and maximum remaining useful lives of the individual properties are 20 years and 80 years respectively. The contractually agreed rental income for the respective property and other property-specific value parameters are applied in the first year of the detailed planning period.

The average monthly in-place rent for the rented apartments in the property portfolio (referring here and hereinafter to both investment property and properties held for sale) used for the measurement in buildings used primarily for residential purposes was EUR 5.27 per square metre as at the end of the reporting period (2015: EUR 5.20 per square metre). 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 0.27% to 1.82%, 0.97% on average (2015: 0.30% to 1.78%, on average 1.02%) depending on the assessment of the respective market and property. Rent from existing tenancies is projected on the basis of the statutory environment and the assessment of the respective market and property, and is assumed to converge with the overall market trend over time. The vacancy rate in terms of rental space used for measurement amounted to 3.40% as at the measurement date (2015: 3.36%). 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 11.24 per square metre are assumed for reactive and periodical maintenance work depending on the condition and year of construction of the respective properties used predominantly for residential purposes (2015: EUR 11.49 per square metre).

Administrative costs are applied at a flat rate per residential unit of EUR 284.46 p.a. (2015: EUR 289.66 p.a.) and per parking or garage space of EUR 37.10 p.a. (2015: EUR 37.78 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% (2015: 1%) of gross commercial income.

Management costs are largely based on the cost rates from the Second Rent Computation Ordinance (II BV, 1 January 2017). The II BV management costs have been adjusted in relation to the change in the consumer price index every three years since 2005. For continuity, the measurement model treats the increase from the last regular adjustment (2014: around 5.76%; 2017: around 1.89%) of management costs according to II BV as an annual increase spread over three years. The cost forecast for 2014 and 2015 in connection with this proved far more optimistic than previously expected when the real adjustment as at 1 January 2017 was released. This has been taken into account in line with market standards as at 31 December 2016.

In addition, the development of maintenance and management costs was dynamic in the period under review. The cost increase of 2% per year is derived from the increase in the consumer price index expected in the medium term.

Around 1.25% (2015: 1.41%) of the building 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 to the residential portfolio, these properties are also subject to different assumptions with regard to the key parameters affecting their value.

The average rent of the primarily commercial properties is EUR 6.95 per square metre (2015: EUR 6.92 per square metre), with average maintenance costs of EUR 7.22 per square metre (2015: EUR 15.42 per square metre; 2014: EUR 6.82 per square metre) in the detailed planning period. The amount recognised for maintenance for 2015 was due to the inclusion of an investment for the purposes of reletting a listed commercial complex. This investment has since been carried out. The vacancy rate in terms of usable space was 12.54% as at the measurement date (2015: 13.35%). Administrative costs are calculated at 1% (2015: 1%) of gross commercial income.

Cash flows are discounted using standard market discount rates with matching maturities of 5.52% on average (weighted average; 2015: 5.70%) and standard market capitalisation rates for perpetuals of 6.64% (weighted average; 2015: 6.63%); 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 situation on the property markets is still generally characterised by declining yields.

This uninterrupted positive development in discount rates and the usual strong operating activity have been taken into account by the adjusted measurement parameters.

Owing to the limited availability of market data, i.e. data and measurement parameters not directly observable on the market, the complexity of property valuation and the level of specification of property, the fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). Further details can be found in section D.18.

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

— Residential assets
— Commercial assets
— Garages, underground garages or parking spaces/ other properties
— Leasehold and undeveloped land

Commercial property is defined as property upwards of 1,000 square metres of useable space or in which 50% of the building is used for commercial purposes. Other properties are essentially units with outside advertising media and wireless antennas. Properties are also broken down according to three market clusters using a scoring system: growth markets (“orange”), stable markets (“green”) and higher yielding markets (“purple”).

The table below shows the measurement method used to determine the fair value of investment property and the material unobservable inputs used. *Table* **T71**

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2015: *Table* **T72**

T71 – Information about fair value measurements using significant unobservable inputs (Level 3) 2016

			Discount rate *(sqm-weighted, in %)* [4]			**Capitalisation rate** *(sqm-weighted, in %)* [4]		
Segment € million	**GAV assets**	**Valuation technique** [3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets [1]								
High-growth markets	3,324	DCF	4.1	5.4	7.1	2.4	6.0	9.1
Stable markets	2,439	DCF	4.3	5.5	6.5	3.3	6.7	9.5
Higher-yielding markets	1,754	DCF	4.5	5.7	6.8	3.5	7.2	13.4
Non NRW	131	DCF	4.3	5.4	6.1	4.1	6.9	9.3
Commercial assets [2]	179	DCF	5.0	6.4	10.0	4.0	6.9	10.2
Parking + other assets	149	DCF	5.1	–	6.7	3.7	–	13.2
Leasehold + land values	33	Earnings/ reference value method						
TOTAL IAS 40/ IFRS 5	**8,009**	**DCF**	**4.1**	**5.5**	**10.0**	**2.4**	**6.6**	**13.4**

[1] Excluding 328 residential units in commercial buildings; including 324 commercial and other units in mixed residential assets.
[2] Excluding 290 commercial units in mixed residential assets; including 321 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.

T72 – Information about fair value measurements using significant unobservable inputs (Level 3) 2015

			Discount rate *(sqm-weighted, in %)* [4]			**Capitalisation rate** *(sqm-weighted, in %)* [4]		
Segment € million	**GAV assets**	**Valuation technique** [3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets [1]								
High-growth markets	2,855	DCF	4.3	5.5	7.2	2.8	6.0	8.9
Stable markets	1,936	DCF	4.4	5.7	7.0	3.4	6.7	12.8
Higher-yielding markets	1,219	DCF	4.6	5.9	6.6	4.1	7.3	12.6
Non NRW	91	DCF	4.4	5.5	6.2	4.2	7.1	9.1
Commercial assets [2]	159	DCF	4.8	6.7	10.7	5.0	7.3	11.8
Parking + other assets	118	DCF	5.3	–	6.9	4.0	–	13.3
Leasehold + land values	23	Earnings/ reference value method						
TOTAL IAS 40/ IFRS 5	**6,401**	**DCF**	**4.3**	**5.7**	**10.7**	**2.8**	**6.6**	**13.3**

[1] Excluding 321 residential units in commercial buildings; including 290 commercial and other units in mixed residential assets.
[2] Excluding 290 commercial units in mixed residential assets; including 321 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.

	Sensitivities GAV *(variance discount rate, in %)*		**Sensitivities GAV** *(variance discount rate, in %)*		**Estimated rental development Residential** *(sqm-weighted, in %)*			**Estimated vacancy development Residential** *(sqm-weighted, in %)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*avg.*	*max.*	T_0
	4.6	−4.4	2.6	−2.5	0.6	1.4	1.8	1.5
	3.8	−3.8	2.0	−2.1	0.5	0.9	1.4	3.0
	3.5	−3.9	1.5	−2.0	0.3	0.7	1.2	5.7
	3.8	−3.7	1.9	−2.0	0.5	1.1	1.5	2.3
	2.8	−2.0	2.4	−1.5	–	–	–	–
	4.7	−4.4	1.9	−1.8	–	–	–	–
	4.1	**−4.1**	**2.1**	**−2.2**				

	Sensitivities GAV *(variance discount rate, in %)*		**Sensitivities GAV** *(variance discount rate, in %)*		**Estimated rental development Residential** *(sqm-weighted, in %)*			**Estimated vacancy development Residential** *(sqm-weighted, in %)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*avg.*	*max.*	T_0
	4.5	−4.2	2.6	−2.3	0.6	1.4	1.8	1.5
	4.0	−3.8	2.1	−2.0	0.6	0.9	1.3	3.3
	3.7	−3.5	1.8	−1.7	0.3	0.7	1.1	5.7
	3.7	−3.6	1.8	−1.8	0.5	1.1	1.4	1.1
	2.2	−2.1	1.8	−1.7	–	–	–	–
	4.7	−4.3	1.9	−1.7	–	–	–	–
	4.1	**−3.9**	**2.2**	**−2.1**				

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 value-adding 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 useful life.

Any subsidies received are deducted in calculating cost.

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

T73 – Useful life of property, plant and equipment

in years	**2016**	*2015*
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/ Other operating and office equipment	5 to 23	5 to 23

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

Purchased intangible assets are capitalised at cost. Such assets are software licenses with a definite useful life. Software licenses are amortised on a straight-line basis over an expected economic life of between three and five years from the date on which they are provided.

The goodwill resulting from purchase price allocation (PPA) is allocated to the cash-generating units (CGUs) expected to benefit from the business combination. The partial goodwill method is applied in calculating goodwill.

There are two CGUs to which goodwill has been allocated within the LEG Group as at 31 December 2016 ("Vitus" and "Residential like-for-like"). The portion of goodwill resulting from deferred tax liabilities is allocated to the respective CGU that holds the assets and liabilities. Goodwill of EUR 33.3 million relates to the "Vitus" CGU as at 31 December 2016 and EUR 42.6 million to the "Residential like-for-like" CGU.

The synergies anticipated from the business combinations essentially consist of planned cost savings, additional income potential and tax savings, which are allocated proportionately to the respective CGUs.

In the goodwill impairment test, the recoverable amount is represented by the fair value less costs of disposal (FVLCOD). The FVLCOD is calculated as the present value of the free cash flows before interest and after taxes expected from continuing a CGU or a group of CGUs. A general tax rate of 31.2% (previous year: 31.2%) is applied to EBIT here. The cash flow forecast reflects past experience and takes into account management expectations of future market developments. These cash flow forecasts are based on the resolved medium-term planning, which covers a horizon of five years (detailed planning period). Administrative costs are accounted for appropriately.

There is also a cash flow forecast going beyond the five-year planning horizon. This is prepared by deriving a sustainable free cash flow from the detailed planning period and extrapolating this using a growth rate based on the specific market development.

A weighted average cost of capital that reflects the capital market's return requirements for debt and equity to the LEG Group is used to discount the free cash flows. A cost of capital after taxes is also used on the basis of the calculated free cash flows after taxes. Risks of free cash flows are taken into account by a matched risk capitalisation rate.

A uniform capitalisation rate of 2.9% (previous year: 3.0%) was used for the CGUs analysed in the goodwill impairment test, representing a corresponding pre-tax capitalisation rate of 3.2% (previous year: 3.4%), 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 0.75% p.a. is assumed for all CGUs.

The goodwill impairment tests performed for the two CGUs 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 FVLCOD 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 two CGUs.

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. Impairment testing is performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGUs) are formed as groups of assets whose future cash flows are interdependent.

As there were no triggering events for impairment in the "Biomasse" CGU in the financial year and Biomasse Heizkraftwerk GmbH & Co. KG improved its results of operations, the "Biomasse" CGU was not tested for impairment.

Investment property is not subject to impairment testing in accordance with IAS 36 as it is recognised at fair value.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised immediately in profit or loss.

5. Other financial assets

The LEG Group recognises financial assets as at the trade date.

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.

If the fair value cannot be reliably determined they are recognised at cost.

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 lessee

Leased assets for which beneficial ownership lies with the LEG Group (finance leases in accordance with IAS 17) are recognised as non-current assets at the lower of the present value of minimum lease payments or the fair value of the leased property, and are depreciated on a straight-line basis. Leases for which beneficial ownership does not lie with the LEG Group are classified as operating leases.

7. Accounting for leases as the lessor

Leases for residential properties grant tenants an option to terminate the agreement at short-notice on the basis of the statutory regulations. In accordance with IAS 17, these agreements are classified as operating leases as the significant risks and rewards remain with the LEG Group. The same applies to the current agreements for commercial property.

Income from operating leases is recognised in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective leases.

8. Receivables and other assets

On initial recognition, trade receivables and other financial assets are carried at their fair value plus transaction costs. Subsequent measurement is at amortised cost.

9. Receivables and liabilities from operating costs not yet invoiced

Operating costs that can be passed on but that have not yet been invoiced as at the end of the reporting period are shown under other receivables in the LEG Group and reduced by the amount of tenant advances received for operating costs. Costs that can be capitalised and passed on are reported net of the tenant advances received. A financial liability is reported if liabilities exceed assets.

10. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other short-term, highly liquid financial assets with original maturities of three months or less and bank overdrafts. Utilised bank overdrafts are shown in the statement of financial position in current financial liabilities.

11. Assets held for sale

In accordance with IFRS 5, assets held for sale consist solely of those assets for which a decision on disposal has been made as at the end of the reporting period, the disposal of the property within twelve months of the decision is considered to be highly likely and active marketing activities have been initiated.

In accordance with IFRS 5, assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Items of investment property classified as assets held for sale are measured at fair value in accordance with IAS 40.

12. Pension provisions

Pension and similar obligations result from commitments to employees. Obligations arising from defined benefit plans are measured in accordance with the projected unit credit method. Using this method, forecast future increases in salaries and benefits are taken into consideration in addition to benefits and entitlements known at the end of the reporting period. The biometric basis is provided by the 2005G Heubeck mortality tables.

The Group has both defined benefit and defined contribution plans. The amount of the pension benefits payable under defined benefit plans is based on the qualifying period of employment and the pensionable income.

In Germany, the regulatory framework is the Betriebsrentengesetz (Germany Company Pension Act), according to which pensions rise in line with the rate of inflation. LEG bears the actuarial risks, such as the longevity risk, the interest rate risk and the inflation risk. There are no additional plan-specific risks at LEG.

Remeasurement components in connection with defined benefit plans, which cover actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. No past service costs were incurred in the year under review or the previous year.

The interest effect included in pension expenses is shown in interest expenses in the consolidated statement of comprehensive income. Past service costs are shown under operating result in the individual functions.

13. Other provisions

Other provisions are recognised if the LEG Group has a present legal or constructive obligation as a result of past events that is uncertain with regard to settlement and/or amount. They are recognised at the present value of the expected settlement amount.

Non-current provisions are carried at their discounted settlement amount as at the end of the reporting period on the basis of corresponding market interest rates with matching maturities.

14. 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. Interest derivatives

The LEG Group uses derivative financial instruments to hedge interest rate risks arising from property 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 accounted for 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 other comprehensive income (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 measurement 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 inputs). Please see section 18.

Both the Group's own risk and the counterparty risk were taken into account in the calculation of the fair value of derivatives in accordance with IFRS 13.

17. Put options

LEG is the writer of several put options on the basis of which non-controlling shareholders can tender their interests in companies controlled by LEG to LEG Immo.

They are recognised as financial liabilities in the amount of the present value of the claim to payment of the option holder (fair value). The liability is recognised against the equity attributable to the writer (LEG), if material risks and rewards of the interest remain with the non-controlling shareholders. If LEG can avoid repurchase by appointing a third party, at least the corresponding opportunity costs are recognised. There is no additional reporting of the put options as independent derivatives in this case. The financial instruments are subsequently measured at amortised cost using the effective interest method.

18. Calculation of fair value

Fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). For information on the measurement of investment property, please see the comments in section D.1. For the measurement of derivative financial instruments, please see section D.16 and section I.3.

The fair value hierarchy can be summarised as follows:

T74 – 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	

19. Revenue recognition

Income is recognised when it is probable that the economic benefit will flow to the Group and the amount of the income can be measured reliably. The following recognition criteria must also be met in order for income to be recognised:

a) Rental and lease income

Income from the rental and lease of properties for which the corresponding rental and lease agreements are classified as operating leases is recognised on a straight-line basis over the term of the respective lease agreement. When incentives are provided to tenants, the cost of 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 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.

20. Government grants

The LEG Group has primarily received government grants in the form of loans at below-market interest rates.

These loans at below-market rates are property loans and are reported as financial liabilities. They provide benefits compared to regular loans, such as lower interest rates or periods free of interest and principal payments. The loans were measured at fair value when the company was acquired in 2008 and carried at amortised cost in subsequent periods.

On initial recognition, new investment loans and loans at below-market rates are measured at their present value based on the applicable market interest rate at the grant date. The difference between the nominal amount and the present value of the loan is recognised as deferred income and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

21. Income taxes

The income tax expense represents the total of the current tax expense and the 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 reasonably assured.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met. In accordance with IAS 12, a company must recognise deferred taxes (outside basis differences) for taxable and deductible temporary differences between the consolidated IFRS net assets and the carrying amount in the tax accounts of interests in subsidiaries, associates and joint arrangements under certain conditions.

Deferred tax liabilities and deferred tax assets are calculated on the basis of the tax rates (and tax legislation) that are expected to be in force when the liability is settled or the asset is realised. This is based on the tax legislation in force or adopted by the Bundestag (Lower House of the German Parliament) and, where applicable, the Bundesrat (Upper House of the German Parliament) as at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Group expects to settle the deferred tax liabilities or realise the deferred tax assets as at the end of the reporting period.

Current or deferred taxes are recognised in profit or loss unless they relate to items that are recognised in other comprehensive income or recognised directly in equity. In this case, the corresponding current and deferred taxes are recognised in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and to the same taxable entity. In addition, only deferred taxes that relate to items of the statement of financial position with the same maturity are netted.

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%.

22. Judgements

The management is required to use judgement in applying the accounting policies. This applies in particular to the following items:

- For assets held for sale, it must be determined whether the assets can be sold in their present condition and whether their disposal can be considered highly likely within the meaning of IFRS 5. If this is the case, the assets and any corresponding liabilities are reported and measured as assets and liabilities held for disposal.
- It must be determined whether property should be classified as inventories or investment property depending on the intended use.
- Buildings that are both owner-occupied and used by third parties must be reported as separate assets in accordance with IAS 16 and IAS 40, unless the owner-occupied component is immaterial.
- In the context of portfolio acquisitions, non-controlling interests are reported if material risks and rewards lie with the minority shareholder.

23. Use of estimates

The preparation of IFRS consolidated financial statements requires assumptions and estimates affecting the carrying amounts of the assets and liabilities recognised, income and expenses and the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to:

- Measurement of investment property: significant measurement parameters include the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. If market values cannot be derived from transactions for similar properties, they are measured using the DCF method, under which future cash flows are discounted to the end of the reporting period. These estimates involve assumptions concerning the future. In light of the large number of properties affected and their geographical distribution, individual measurement uncertainties are subject to statistical smoothing. Measurement is performed on the basis of publicly available market data (e.g. property market reports by expert committees, data from the service provider INWIS, etc.) and the extensive knowledge of the LEG Group and its subsidiaries in the respective regional submarkets.

- Recognition and measurement of provisions for pensions and similar obligations: Provisions for pensions and similar obligations are measured on the basis of actuarial calculations, applying assumptions with regard to interest rates, future wage and salary increases, mortality tables and future pension growth.

- Recognition and measurement of other provisions: Recognition and measurement is subject to uncertainty concerning future price growth and the amount, timing and probability of utilisation of the respective provision.

- Measurement of financial liabilities: The measurement of financial liabilities depends in particular on estimates of future cash flows and potential changes in terms. Estimates of the company-specific risk premium are also required.

- Recognition of deferred tax assets: Deferred tax assets are recognised if it is probable that future tax benefits will be realised. The actual taxable income in future financial years, and hence the extent to which deferred tax assets can be utilised, can deviate from the estimates made when the deferred tax assets are recognised. Deferred tax assets for tax loss carryforwards are recognised on the basis of future taxable income for a planning period of five financial years.

- Share-based Payment (IFRS 2): Assumptions and judgements regarding the development of performance indicators and fluctuation are required in accounting for stock option plans. They are calculated using option pricing models.

- Goodwill impairment test: The calculation of the FVLCOD requires assumptions and judgements regarding future EBIT development and sustainable growth rates in particular.

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 2, 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. Measurement of investment property

Investment property developed as follows in the 2016 and 2015 financial years:

T75 – Investment properties

€ million	**2016**	*2015*
CARRYING AMOUNT AS OF 01.01.	**6,398.5**	**5,914.3**
Acquisitions	1,064.2	189.6
Other additions	76.8	64.7
Reclassified to assets held for sale	–96.3	–55.7
Reclassified from assets held for sale	0.0	0.4
Disposal of carrying amount	–103.3	–
Reclassified to property, plant and equipment	–2.2	–0.3
Reclassified from property, plant and equipment	0.6	–
Fair value adjustment	616.6	285.5
CARRYING AMOUNT AS OF 31.12.	**7,954.9**	**6,398.5**

The additions included the following acquisitions:

Portfolio acquisition 1

Portfolio acquisition 1 comprises the recognition of property portfolios that were purchased as part of the acquisition of Sahle Wohnen GmbH & Co. KG. See section C.3, Business combinations.

Portfolio acquisition 2

The acquisition of a property portfolio of around 2,037 residential units was notarised on 11 August 2015. The portfolio generates annual net cold rent of around EUR 7.7 million. The average in-place rent is around EUR 5.04 per square metre and the initial vacancy rate is around 6.7%. The transaction was closed on 1 January 2016. The portfolio acquisition does not constitute a business combination.

Portfolio acquisition 3

The acquisition of a property portfolio of around 1,291 residential units was notarised on 16 December 2015. The portfolio generates annual net cold rent of initially around EUR 4.6 million. The average in-place rent is EUR 5.16 per square metre; the initial vacancy rate is 17.3%. The economic transfer of 999 residential units took place as at 1 January 2016. For the remaining 292 residential units, the transaction was closed as at 1 July 2016. The portfolio acquisition does not constitute a business combination.

Portfolio acquisition 4

Portfolio 4 includes the recognition of a property portfolio acquired from Vonovia SE in the context of the business combination. See section C.3, Business combinations.

Portfolio acquisition 5

On 12 April 2016, LEG Immo signed a contract for the acquisition of a portfolio of approximately 1,100 apartments, located in LEG's core market, by way of a share purchase. The agreed property value is EUR 53 million; liabilities of around EUR 23 million were assumed. LEG's obligations under the contract were settled by issuing new LEG shares. The portfolio generated rental income of around EUR 4 million in the last financial year. The transaction was closed as at 30 May 2016 and does not constitute a business combination.

Portfolio acquisition 6

The acquisition of a property portfolio of around 556 residential units was notarised on 13 July 2016. The portfolio generates annual net cold rent of initially around EUR 1.8 million. The average in-place rent is EUR 4.96 per square metre; the initial vacancy rate is 7.1%. The transaction was closed on 1 December 2016. The portfolio acquisition does not constitute a business combination.

The reclassification to assets held for disposal and carrying amount disposals mainly relate to four block sales.

Portfolio sale 1

439 residential units were sold by way of a purchase agreement dated 12 April 2016. The property portfolio was revalued in connection with the sale negotiations, resulting in income from the remeasurement of investment property of EUR 960 thousand. The carrying amount was disposed of with closing of the transaction on 31 May 2016. Deconsolidation gains from this disposal were EUR 1.7 million.

Portfolio sale 2

The sale of a property portfolio with 1,286 residential and commercial units was notarised on 29 September 2016. The revaluation of the property portfolio resulted in income from remeasurement of investment property of EUR 7.0 million. The carrying amount was derecognised with closing of the transaction for 577 residential and commercial units on 31 December 2016 and for 709 residential units on 1 January 2017. Deconsolidation gains from this disposal were EUR 2.0 million.

Portfolio sale 3

Another block sale of 426 residential units took place on 16 September 2016. The revaluation of the property portfolio resulted in income from remeasurement of investment property of EUR 1.5 million. The carrying amount was derecognised on the closing of the transaction on 1 January 2017.

Portfolio sale 4

A property portfolio of 1,953 residential units was sold on 31 August 2016. The carrying amount was disposed with closing of the transaction on 30 September 2016. Deconsolidation gains from this disposal were EUR 12.8 million.

The carrying amounts of all properties disposed of by 31 December 2016 was EUR 150.3 million in total. EUR 114.1 million in total was paid in cash as purchase price payments for disposals of investment property.

Other additions in the financial year primarily relate to investments in existing properties. The biggest investments in 2016 include the conversion of a commercial property in Kamen, the energy modernisation of properties in Dortmund and the renovation of bathing and plumbing facilities for properties in Bonn.

Investment property broke down as follows in the 2016 and 2015 financial years:

T76 – Composition of investment properties

	31.12.2016		*31.12.2015*	
€ million	*Investment properties*	*Properties held for sale*	*Investment properties*	*Properties held for sale*
Developed land	7,779.2	55.8	6,256.1	6.4
Undeveloped land	21.8	0.2	18.9	0.2
Other	153.9	1.0	123.5	0.0
TOTAL	**7,954.9**	**57.0**	**6,398.5**	**6.6**

The development in fair values in the financial year was again determined by the positive development of the market environment. The monitoring of general transaction activities is primarily reflected in a declining discount rate. As in the previous year, operating business made a solid contribution to increasing property values in the form of in-place rent increases and the reduction of vacancies.

Sensitivities were as follows as at 31 December 2016:

T77 – Sensitivity analysis 2016

			Sensitivities GAV (variance discount rate, in %)		Sensitivities GAV (variance cap rate, in %)	
€ million						
Segment	*GAV assets*	*Valuation technique*[3]	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	3,324	Discounted cash flows	4.6	–4.4	2.6	–2.5
Stable markets	2,439	Discounted cash flows	3.8	–3.8	2.0	–2.1
Higher-yielding markets	1,754	Discounted cash flows	3.5	–3.9	1.5	–2.0
Non NRW	131	Discounted cash flows	3.8	–3.7	1.9	–2.0
Commercial assets[2]	179	Discounted cash flows	2.8	–2.0	2.4	–1.5
Parking + other assets	149	Discounted cash flows	4.7	–4.4	1.9	–1.8
Leasehold + land values	33	Earnings/ reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5	**8,009**	**Discounted cash flows**	**4.1**	**–4.1**	**2.1**	**–2.2**

[1] Excluding 324 residential units in commercial buildings; including 328 commercial and other units in mixed residential assets.
[2] Excluding 328 commercial units in mixed residential assets; including 324 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.

Sensitivities were as follows as at 31 December 2015:

T78 – Sensitivity analysis 2015

			Sensitivities GAV (variance discount rate, in %)		Sensitivities GAV (variance cap rate, in %)	
€ million						
Segment	*GAV assets*	*Valuation technique*[3]	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	2,855	Discounted cash flows	4.5	–4.2	2.6	–2.3
Stable markets	1,936	Discounted cash flows	4.0	–3.8	2.1	–2.0
Higher-yielding markets	1,219	Discounted cash flows	3.7	–3.5	1.8	–1.7
Non NRW	91	Discounted cash flows	3.7	–3.6	1.8	–1.8
Commercial assets[2]	159	Discounted cash flows	2.2	–2.1	1.8	–1.7
Parking + other assets	118	Discounted cash flows	4.7	–4.3	1.9	–1.7
Leasehold + land values	23	Earnings/ reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5	**6,401**	**Discounted cash flows**	**4.1**	**–3.9**	**2.2**	**–2.1**

[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.

Some investment property is let under the terms of commercial rental agreements and leases. These rental agreements and leases generally have a term of ten years and contain extension options for a maximum of two-times five years.

The Group also has land with third-party heritable building rights with an original contractual term that is generally between 75 and 99 years.

There are also leases for advertising space.

The rental agreements for residential property concluded by the LEG Group can 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 and leases for advertising space that were in place as at 31 December 2016: *Table* **T79**

Investment property is used almost exclusively as securities for financial liabilities. See also E.11.

T79 – 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**
31.12.2016	16.1	26.4	20.8	63.3
31.12.2015	13.1	22.0	16.4	51.5

2. Property, plant and equipment

The development of property, plant and equipment is shown in the consolidated statement of changes in assets (Annex I).

Assets under finance leases had the following net carrying amounts as at the end of the reporting period:

T80 – Assets under finance leases

€ million	**31.12.2016**	*31.12.2015*
Heat-generating plants	10.6	12.1
Measuring instruments	6.6	7.1
Smoke alarms	3.0	–
Heritable building rights	3.4	3.3
Power lines	0.7	0.8
TOTAL	**24.3**	**23.3**

The year-on-year decline in the net carrying amounts resulted primarily from depreciation in the financial year. The rental of smoke alarms by the consolidated company EnergieServicePlus GmbH, Dusseldorf, is reported as a finance lease for the first time as at 31 December 2016.

3. Intangible assets

The development of intangible assets is shown in the consolidated statement of changes in assets (Annex I).

4. Other financial assets

Other financial assets are composed as follows:

T81 – Other financial assets

€ million	**31.12.2016**	*31.12.2015*
Investments in affiliates not included in consolidation	0.1	146.1
Investments in equity investments and associates	1.2	1.2
Other financial assets	1.5	1.5
TOTAL	**2.8**	**148.8**

Details of other financial assets can be found in section I.3.

5. Receivables and other assets

Receivables and other assets are composed as follows:

T82 – Receivables and other assets

€ million	**31.12.2016**	*31.12.2015*
Trade receivables, gross	33.4	30.5
Impairment losses	–14.1	–12.5
TOTAL	**19.3**	**18.0**
Thereof attributable to rental and leasing	7.2	5.4
Thereof attributable to property disposals	5.9	3.8
Thereof attributable to other receivables	6.2	8.8
Thereof with a remaining term up to 1 year	15.2	16.2
Thereof with a remaining term of between 1–5 years	4.1	1.8

€ million	**31.12.2016**	*31.12.2015*
Receivables from uninvoiced operating costs	8.9	4.9
Loans	0.0	0.1
Other financial assets	20.7	3.6
Other miscellaneous assets	6.5	6.6
TOTAL	**36.1**	**15.2**
Thereof with a remaining term up to 1 year	26.3	14.3
Thereof with a remaining term of between 1–5 years	9.8	0.9
TOTAL RECEIVABLES AND OTHER ASSETS	**55.4**	**33.2**

Details of related parties can be found in section I.7.

6. Cash and cash equivalents

T83 – Cash and cash equivalents

€ million	**31.12.2016**	*31.12.2015*
Bank balances	166.7	252.7
Cash on hand	0.0	0.1
CASH AND CASH EQUIVALENTS	**166.7**	**252.8**
Restricted disposal balances	4.2	7.4

Bank balances have variable interest rates for overnight deposits. Short-term deposits are made for periods of between one day and three months, depending on the Group's liquidity requirements. Cash and cash equivalents include balances with a fixed purpose. These are reported as balances with restricted access.

7. Assets held for sale

T84 – Assets held for sale

€ million	**2016**	*2015*
CARRYING AMOUNT AS OF 01.01.	**6.7**	**58.4**
Reclassified from investment properties	96.3	55.7
Reclassified to investment properties	0.0	–0.4
Reclassified from property, plant and equipment	0.4	–
Disposal due to sale of land and buildings	–14.9	–107.1
Disposal due to sale of companies	–32.5	0.0
Other additions	1.0	0.1
CARRYING AMOUNT AS OF 31.12.	**57.0**	**6.7**

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

For information on reclassifications from investment property, please see section D.1.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped land and residential and commercial buildings. The disposals related to several smaller block and individual sales.

The increase in disposals due to the sale of companies results from the sale of all shares in Johannismarkt Grundstücksgesellschaft mbH, Jupp Grundstücksgesellschaft mbH and LEG Marl GmbH. See also section C.2.

See also section F.2.

8. Equity

The change in equity components is shown in the statement of changes in equity.

a) Share capital

On the basis of the authorisation in accordance with Article 4.1 of the Articles of Association (Authorised Capital 2015), the share capital was increased by EUR 418,397 to EUR 63,188,185. Each share represents EUR 1.00 of the share capital. By way of resolution of the Supervisory Board on 24 May 2016, Articles 3 and 4 of the Articles of Association (Share Capital and Shares, Authorised Capital) were amended accordingly. The transaction costs of the capital increase amounts to EUR 1.5 million and were deducted directly from the capital reserves.

The Annual General Meeting of 19 May 2016 revoked the Authorised Capital 2015 and created new Authorised Capital 2016. It also amended the Contingent Capital 2013/2015 resolved by the Annual General Meeting on 24 June 2015 and revised Article 4.1 and Article 4.2 of the Articles of Association accordingly.

By way of resolution of the Annual General Meeting on 19 May 2016, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by up to a total of EUR 31,384,894 by issuing up to 31,384,894 new registered shares against cash or non-cash contributions by 18 May 2021 (Authorised Capital 2016).

The share capital is contingently increased by up to EUR 31,384,894 through the issue of up to 31,384,894 new no-par value bearer shares (Contingent Capital 2013/2016).

The notifications in accordance with section 160(1) no. 8 AktG can be found in Annex III.

b) Capital reserves

An amount of EUR 200.0 million was withdrawn from capital reserves and added to net retained profits.

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 2016 financial year, there was a distribution to the shareholders of the company for 2015 in the form of a dividend of EUR 141.9 million (EUR 2.26 per share).

d) Non-controlling interests

Non-controlling interests in other comprehensive income were composed as follows:

T85 – Non-controlling interest in other comprehensive income

€ million	**31.12.2016**	*31.12.2015*
Actuarial gains and losses from the measurement of pension obligations	0.0	0.0
Fair value adjustment of interest rate derivatives in hedges	0.0	0.0
NON-CONTROLLING INTEREST IN OTHER COMPREHENSIVE INCOME	**0.0**	**0.0**

9. Pension provisions

Expenses for defined contribution plans amounted to EUR 4.4 million in the year under review (2015: EUR 3.8 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:

T86 – Calculation of pension provisions

in %	**31.12.2016**	*31.12.2015*
Discounting rate	1.50	2.20
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 2016 (present value of obligation as at 31 December 2016: EUR 161.7 million):

T87 – Sensitivity of pension provisions 2016

€ million		
Discounting rate (increase and decrease around 0.5% pts.)	150.2	174.8
Salary trend (increase and decrease around 0.5% pts.)	163.5	160.1
Mortality (increase and decrease around 10%)	155.6	168.8
Pension trend (increase and decrease around 0.25% pts.)	166.4	157.3

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2015 (present value of obligation as at 31 December 2015: EUR 149.8 million):

T88 – Sensitivity of pension provisions 2015

€ million		
Discounting rate (increase and decrease around 0.5% pts.)	139.3	161.4
Salary trend (increase and decrease around 0.5% pts.)	151.3	148.1
Mortality (increase and decrease around 10%)	144.1	156.0
Pension trend (increase and decrease around 0.25% pts.)	153.9	145.7

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.

T89 – Development of pension obligations

€ million	**2016**	*2015*
PRESENT VALUE OF OBLIGATIONS AS OF 01.01.	**149.8**	**164.6**
Service cost	1.6	2.1
Interest expenses	3.2	2.9
Addition due to acquisitions	–	–
Disposals	–	–0.9
Payments	–6.9	–6.8
Remeasurement	13.9	–12.1
Thereof losses (gains) from changes in experience	–2.2	–3.2
Thereof losses (gains) arising from changes in financial assumptions	16.1	–8.9
Thereof losses (gains) arising from changes in demographic assumptions	–	–
PRESENT VALUE OF OBLIGATIONS AS OF 31.12.	**161.7**	**149.8**

EUR 49.6 million of the present value of the obligation relates to current employees covered by the plan (2015: EUR 43.7 million), EUR 14.0 million to employees who have left the company and whose rights are not yet vested (2015: EUR 11.8 million) and EUR 98.1 million to pensioners (2015: EUR 94.3 million).

A pension payment of EUR 6.9 million (2015: EUR 7.0 million) is expected for 2016. The duration of the defined benefit obligation is 15.4 years (2015: 14 years).

10. Other provisions

Other provisions are composed as follows:

T90 – Other provisions

€ million	**31.12.2016**	*31.12.2015*
Provisions for partial retirement	1.2	1.4
STAFF PROVISIONS	**1.2**	**1.4**
Construction book provisions	4.0	4.3
Provisions for other risks	19.2	20.2
Provisions for litigation risks	1.3	2.2
Provisions for lease properties	0.8	0.7
Provision for costs of annual financial statements	0.9	1.2
Archiving provision	0.4	0.5
OTHER PROVISIONS	**26.6**	**29.1**

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 15.8 million within one year (previous year: EUR 19.1 million) and EUR 13.1 million after one year (previous year: EUR 12.7 million).

11. Financing liabilities

Financing liabilities are composed as follows:

T91 – Financing liabilities

€ million	**31.12.2016**	*31.12.2015*
Financing liabilities from real estate financing	3,746.0	3,215.0
Financing liabilities from lease financing	28.3	26.6
FINANCING LIABILITIES	**3,774.3**	**3,241.6**

Financing liabilities from property financing serve the financing of investment property.

Financing liabilities from real estate financing include the placement of the convertible bond with a nominal value of EUR 300.0 million. The convertible bond was classified 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. The underlying debt instrument is recognised at amortised cost.

There was a refinancing in the 2016 financial year. The disbursement in connection with the refinancing and acquisition financing increased financial liabilities by EUR 884 million. This was offset by the derecognition of the previous loans, which reduced total financial liabilities by EUR 373 million. In addition to the loans utilised, financing liabilities were also increased by loans amortisation. There was a counter effect from 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 537.0 million in the 2016 financial year (2015: EUR 460.5 million).

In addition to security in the form of land charges, potential receivables from buildings insurance have been pledged to the creditors of the respective land charges. By contrast, the security provided in the form of pledged rent receivables is increased by the corresponding receivables for incidental costs. For certain loan agreements there are also additional surety bonds and the joint and several liabilities of additional LEG companies to the bank.

a) Financing liabilities from real estate financing

The maturities shown in the consolidated financial statements are based on the contractually agreed fixed interest periods and not the final maturities of the respective financial liabilities.

The remaining terms of Financing liabilities from real estate financing are composed as follows: *Table* **T92**

The change in maturities as against 31 December 2015 is due in particular to the refinancing, which led to an increase in financial liabilities.

T92 – Maturity of financing liabilities from real estate financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2016	545.7	761.4	2,438.9	3,746.0
31.12.2015	491.3	638.7	2,085.0	3,215.0

T93 – Maturity of financing liabilities from lease financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2016	6.3	13.3	8.7	28.3
31.12.2015	4.7	12.4	9.5	26.6

T94– Future minimum lease payments as at 31.12.2016

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total 31.12.2016**
Minimum lease payments	6.1	16.5	25.4	48.0
Financing costs	–0.2	3.2	16.7	19.7
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	6.3	13.3	8.7	28.3

T95 – Future minimum lease payments as at 31.12.2015

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total 31.12.2016**
Minimum lease payments	5.0	16.2	24.9	46.1
Financing costs	0.3	3.8	15.4	19.5
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	4.7	12.4	9.5	26.6

b) Financial liabilities from lease financing

Financial liabilities from lease financing are composed as follows: *Table* **T93**

Future minimum lease payments are derived as follows as at 31 December 2016: *Table* **T94**

The reconciliation as at 31 December 2015 is as follows: *Table* **T95**

Detailed information on lease financing can be found in section E.2.

12. Other liabilities

Other liabilities are composed as follows:

T96 – Other liabilities

€ million	**31.12.2016**	*31.12.2015*
Interest derivatives	192.2	211.1
Advance payments received	82.0	23.4
Liabilities from shareholder loans	0.3	0.2
Trade payables	68.1	46.4
Rental and lease liabilities	15.1	13.9
Liabilities from other taxes	0.9	1.4
Liabilities to employees	9.0	7.9
Social security liabilities	0.5	0.3
Operating cost liabilities	0.6	0.5
Interest benefit recognised as a liability	6.1	6.3
Other miscellaneous liabilities	57.1	48.4
OTHER LIABILITIES	**431.9**	**359.8**
Thereof with a remaining term up to 1 year	316.5	253.3
Thereof with a remaining term of between 1 – 5 years	19.3	11.9
Thereof with a remaining term of more than 5 years	96.1	94.6

The rise in other liabilities is essentially due to purchase prices received for sales of properties that are only disposed of in the 2017 financial year.

13. Tax liabilities

Current and non-current tax liabilities in the amount of EUR 15.0 million (2015: EUR 23.6 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 9.3 million (2015: EUR 17.8 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 and are broken down as follows:

T97 – Deferred tax assets and liabilities

€ million	31.12.2016 Deferred tax assets	31.12.2016 Deferred tax liabilities	31.12.2015 Deferred tax assets	31.12.2015 Deferred tax liabilities
Non-current assets				
Investment properties	5.7	662.0	1.6	467.2
Other miscellaneous non-current assets	2.7	7.9	3.7	7.3
Current assets	**4.3**	**4.7**	**5.9**	**1.9**
Non-current liabilities				
Pension provisions	26.4	–	20.7	–
Other provisions	2.0	0.6	3.3	–
Other non-current liabilities	21.3	44.7	20.6	62.8
Current liabilities				
Other provisions	1.9	14.6	1.5	15.0
Other current liabilities	26.6	0.5	28.6	0.4
TOTAL DEFERRED TAXES FROM TEMPORARY DIFFERENCES	**90.9**	**735.0**	**85.9**	**554.6**
Deferred taxes on loss carryforwards	72.3	–	78.6	–
TOTAL DEFERRED TAXES	**163.2**	**735.0**	**164.5**	**554.6**
Netting	146.9	146.9	150.3	150.3
CARRYING AMOUNT	**16.3**	**588.1**	**14.2**	**404.3**

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.

T98 – Deferred tax assets from tax loss

€ million	31.12.2016	31.12.2015
Corporation tax	39.1	42.9
Trade tax	33.2	35.7
TOTAL	**72.3**	**78.6**

Deferred tax assets from unused tax losses are recognised in the same amount as deferred tax liabilities from temporary differences. Deferred tax assets from unused tax losses in excess of this amount are recognised to the extent that it is probable that the company will generate taxable income. No deferred tax assets were recognised on tax loss and interest carryforwards of EUR 365.1 million as at the end of the reporting period (2015: EUR 348.3 million). Tax loss carryforwards are not yet vested.

Interest expenses are tax-deductible up to the amount of interest income. Above and beyond this amount, deductibility is limited to 30% of taxable EBITDA for the financial year (interest barrier), unless the exemption limit or the equity escape clause comes into force.

Non-deductible interest expenses in the current financial year are carried forward to subsequent periods. Deferred tax assets are only recognised for interest carried forward to the extent that it is probable that the interest expenses can be utilised in subsequent financial years. Owing to the effective conclusion of profit transfer agreements between the subsidiaries that hold the property portfolios and the Group company LEG NRW GmbH in 2012 and the resulting fiscal entity for corporation and trade tax purposes, the interest barrier does not apply to the (extended) fiscal entity, as was the case in the previous year.

In the 2016 financial year, the remeasurement of primary and derivative financial instruments increased equity by EUR 1.5 million (2015: reduction in equity of EUR 10.3 million), while actuarial gains and losses increased equity by EUR 4.3 million (2015: reduction in equity of EUR 3.6 million). As at the end of the reporting period, deferred tax assets recognised directly in equity amounted to EUR 30.2 million (2015: EUR 24.5 million).

No deferred tax liabilities were recognised on temporary differences in connection with shares in subsidiaries, associates and joint ventures that are not expected to reverse in the foreseeable future in accordance with IAS 12.39 of EUR 14.5 million (2015: EUR 16.7 million).

F. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1. Net rental and lease income

T99 – Net rental and lease income

€ million	**2016**	*2015*
Net cold rent	511.7	436.1
Net income from operating costs	–1.6	1.2
Maintenance expenses	–72.0	–54.4
Employee benefits	–42.2	–37.4
Impairment losses on rent receivables	–7.2	–6.0
Depreciation	–5.3	–4.6
Others	–10.3	–14.4
NET RENTAL AND LEASE INCOME	**373.1**	**320.5**
NET OPERATING INCOME MARGIN (IN %)	**72.9**	**73.5**
Non-recurring project costs – rental and lease	2.7	2.3
Depreciation	5.3	4.6
ADJUSTED NET RENTAL AND LEASE INCOME	**381.1**	**327.4**
ADJUSTED NET OPERATING INCOME – MARGIN (IN %)	**74.5**	**75.1**

In the past financial year, the LEG Group increased its net rental and lease income by EUR 52.6 million (16.4%) compared to the previous year. The main drivers in this development were the EUR 75.6 million (17.3%) rise in net cold rent and, offsetting this, the EUR 17.6 million (32.4%) higher maintenance expenses.

At 12.8%, rental-related employee benefits developed at a slower rate than in-place rent.

The LEG Group invested selectively in its assets in the reporting period. Investing activities in the period under review focused on major projects and measures aimed at facilitating the new letting of vacant apartments. With growth of EUR 30.8 million, they contributed to the EUR 35.4 million increase in total investment to EUR 149.6 million.

Newly acquired portfolios accounted for EUR 11.0 million of total investment with economic transfer in 2016.

2. Net income from the disposal of investment property

Net income from the disposal of investment property is composed as follows:

T100 – Net income from the disposal of investment properties

€ million	**2016**	*2015*
Income from the disposal of investment properties	159.0	112.3
Carrying amount of investment properties disposed of	–150.3	–107.0
INCOME/LOSS FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**8.7**	**5.3**
€ million	**2016**	*2015*
Staff costs	–0.7	–0.7
Other operating expenses	–0.4	–0.4
Purchased services	–	–0.6
COST OF SALE IN CONNECTION WITH INVESTMENT PROPERTIES SOLD	**–1.1**	**–1.7**
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**7.6**	**3.6**

Income generated from disposals of investment property in the reporting period was EUR 46.7 million higher than in the same period of the previous year.

In addition to the result of disposals (EUR 7.6 million) and the remeasurement of investment property in connection with disposals (EUR 9.7 million – reported in net income from the remeasurement of investment property), book gains of EUR 7.8 million were recognised from the disposal of other net assets of the portfolios disposed of (reported as other income). The gains on remeasurement due to disposal resulted from the revaluation of the contractually agreed sales value. EUR 8.2 million of this relates to portfolios with a signed sales agreement as at the end of the reporting period but not disposed of until after the end of the reporting period.

Portfolio streamlining thus resulted in profits of EUR 25.1 million in the financial year.

3. Net income from the remeasurement of investment property

Net income from the remeasurement of investment property amounted to EUR 616.6 million in 2016 (2015: EUR 285.5 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 8.4% (2015: 4.7%).

The average value of residential investment property (including IFRS 5 properties) was EUR 930 per square metre as at 31 December 2016 (31 December 2015: EUR 873 per square metre) including acquisitions and EUR 962 per square metre not including acquisitions.

The increase in the value of the portfolio is primarily a result of the development of in-place rents. In the current financial year this was affected by the end of rent control on subsidised property holdings, for which subsidised loans were repaid early on 28 February 2017. Another important driver was the lower discount rate.

4. Net income from other services

Net income from other services is composed as follows:

T101 – Net income from other services

€ million	**2016**	*2015*
INCOME FROM OTHER SERVICES	**10.3**	**8.9**
Purchased services	–1.3	–2.8
Other operating expenses	–2.2	–2.2
Employee benefits	–0.8	–0.8
Depreciation, amortisation and write-downs	–2.3	–2.2
EXPENSES IN CONNECTION WITH OTHER SERVICES	**–6.6**	**–8.0**
NET INCOME FROM OTHER SERVICES	**3.7**	**0.9**

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

Thanks to the good order situation and low commodity prices, operating earnings from electricity and heat generation increased significantly in the financial year.

5. Administrative and other expenses

Administrative and other expenses are composed as follows:

T102 – Administrative and other expenses

€ million	**2016**	*2015*
Other operating expenses	–52.6	–32.3
Staff costs	–21.6	–22.7
Purchased services	–1.1	–1.0
Depreciation, amortisation and write-downs	–2.9	–2.1
ADMINISTRATIVE AND OTHER EXPENSES	**–78.2**	**–58.1**

The other operating expenses contained in the table above are composed as follows:

T103 – Other operating expenses

€ million	**2016**	*2015*
Legal and consulting costs	–10.5	–20.9
Rent and other costs of business premises	–4.6	–4.4
Annual financial statement, accounting and audit costs	–1.4	–1.8
Expenses for postage, telecommunications, IT	–0.6	–0.5
Temporary staff	–0.5	–0.2
Vehicles	–0.4	–0.4
Travel expenses	–0.3	–0.4
Advertising expenses	–0.4	–0.1
Other expenses	0.5	–3.5
Others	–34.4	0.0
OTHER OPERATING EXPENSES	**–52.6**	**–32.2**

Adjusted administrative expenses could be reduced by EUR 4.6 million (12.5%) at EUR 32.1 million as a result of the implementation of efficiency enhancement measures.

Acquisition and integration costs for the acquisition of property portfolios were key contributory factors in the EUR 24.2 million increase in project costs. In the reporting period, EUR 34.4 million of this relates to real estate transfer tax recognised directly under expenses instead of being capitalised on account of the acquisition structure.

6. Interest expenses

Interest expenses are composed as follows:

T104 – Interest expenses

€ million	**2016**	*2015*
Interest expenses from real estate financing	–68.4	–66.6
Interest expense from loan amortisation	–81.3	–38.6
Prepayment penalty	–1.1	–8.3
Interest expense from interest derivatives for real estate financing	–14.9	–21.5
Interest expense from change in pension provisions	–3.2	–2.9
Interest expense from interest on other assets and liabilities	–1.8	–1.6
Interest expenses from lease financing	–1.6	–1.4
Other interest expenses	–4.9	–40.6
INTEREST EXPENSES	**–177.2**	**–181.5**

The rise in interest expense from loan amortisation results in particular from the effects of the planned replacement of subsidised loans in the 2017 financial year. The decline in other interest expenses results from a higher number of interest rate derivatives replaced in the previous year. The non-recurring effects from the replacement of interest rate derivatives amounted to EUR 4.9 million in the past financial year (previous year: EUR 39.5 million). The lower number of interest rate derivatives also had the effect of reducing interest expenses from interest rate derivatives.

Interest expenses from loan amortisation include the measurement effect of the convertible bond in the amount of EUR 6.6 million (previous year: EUR 6.4 million).

7. Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of standalone derivatives and the ineffective portion of interest hedging instruments are reported in net income from the fair value measurement of derivatives.

The net income from the fair value measurement of derivatives in the past financial year was EUR 16.6 million (previous year: EUR –75.8 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of the embedded derivative from the convertible bond of EUR 18.5 million (previous year: EUR –74.0 million).

In the 2016 financial year, there were ineffective hedges to report of EUR 0 million (previous year: EUR –0.5 million).

8. Income taxes

Income tax expense and income is broken down by origin as follows:

T105 – Income taxes

€ million	**2016**	*2015*
Current income taxes	–5.0	–1.6
Deferred taxes	–195.4	–80.4
INCOME TAXES	**–200.4**	**–82.0**
Tax reimbursement for prior years	–	0.9

Based on the consolidated net profit before income taxes and the expected income tax expense, the reconciliation to current income taxes is as follows:

T106 – Reconciliation to current income tax expenses

€ million	**2016**	*2015*
IFRS earnings before income taxes	779.6	299.7
Group tax rate in %	31.2	31.2
FORECAST INCOME TAXES	**–243.2**	**–93.5**
Tax reduction due to tax-free income and off-balance sheet deductions	52.4	21.1
Additional taxes due to non-deductible expenses and off-balance sheet additions	–4.7	–2.2
Tax effect due to deferred tax assets on tax loss carryforwards and not recognised deferred tax assets due to lack of recoverability	–1.7	–16.7
Tax expenses relating to prior periods	–0.9	5.9
Tax effect of LTIP from former shareholders	–	–0.1
Others	–2.3	3.5
INCOME TAXES AS PER STATEMENT OF COMPREHENSIVE INCOME	**–200.4**	**–82.0**
Effective tax rate in %, adjusted	25.7	27.4

The deferred taxes from non-current assets and non-current liabilities are expected to reverse after more than twelve months after the end of the reporting period.

The tax rate applied in calculating theoretical income tax takes into account the current and expected future tax rates for corporate income tax (15%), the solidarity surcharge (5.5% of corporate income tax) and trade tax (15.4%) based on a basic rate of 3.5% and an average assessment rate of 440% (city of Dusseldorf).

9. 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.

On 30 May 2016 LEG Immo implemented a capital increase against contributions in kind with a nominal amount of EUR 418,397, with shareholders' pre-emptive rights disapplied.

T107 – Earnings per share (basic)

	2016	2015
Net profit or loss attributable to shareholders in € million	578.1	217.8
Average numbers of shares outstanding	63,013,853	58,286,212
EARNINGS PER SHARE (BASIC) IN €	**9.17**	**3.74**

T108 – Earnings per share (diluted)

	2016	2015
Net profit or loss attributable to shareholders in € million	578.1	217.8
Convertible bond coupon after taxes	1.1	1.1
Measurement of derivatives after taxes	–18.5	74.0
Amortisation of the convertible bond after taxes	4.9	4.6
Net profit or loss for the period for diluted earnings per share	565.6	297.5
Average weighted number of shares outstanding	63,013,853	58,286,212
Number of potentially new shares in the event of exercise of conversion rights	5,277,945	5,134,199
Number of shares for diluted earnings per share	68,291,798	63,420,411
DILUTED EARNINGS PER SHARE IN €	**8.28**	**4.69**

As at 31 December 2016 LEG AG had potential ordinary shares from a convertible bond, which authorise the bearer to convert it into up to 5.3 million shares.

Diluted earnings per share are calculated by increasing the average number of shares outstanding by the number of all potentially dilutive shares. The net profit/loss for the period is adjusted for the expenses no longer incurring for the interest coupon, the measurement of the embedded derivatives and the amortisation of the convertible bond and the resulting tax effect in the event of the conversion rights being exercised in full.

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

94.9% of shares in LEG Marl GmbH (formerly: Deutsche Annington Wohnungsgesellschaft III mbH) were acquired in the 2016 financial year as part of a share deal. The purchase price paid for this was EUR 96.8 million, less cash and cash equivalents assumed of EUR 1.7 million.

LEG Immo paid additional purchase price payments of EUR 0.5 million in the financial year for the acquisition of SW Westfalen Invest GmbH, which has been part of the Group since 1 January 2016 (after EUR 146.0 million in 2015).

LEG Immo also acquired the majority of shares in a further strategic investment for EUR 9.2 million in 2016. The transfer date and date of first-time consolidation is 1 January 2017 (cf. Events after the end of the reporting period).

LEG Marl GmbH was sold as at 30 September 2016. The purchase price received for the sale was EUR 95.9 million, less cash and cash equivalents transferred of EUR 1.0 million.

In addition, two other subsidiaries were sold for a total of EUR 18.2 million. The cash and cash equivalents transferred amounted to EUR 0.6 million for these companies.

Of further payments of EUR 9.3 million, EUR 7.9 million relates to the repayment of capital to non-controlling shareholders in two subsidiaries and EUR 1.4 million to the transaction costs for the non-cash issue of shares for a portfolio acquisition.

In addition, LEG Immo received EUR 4.2 million from RWE for the sale of shares in ESP and capital contributions.

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

As a result of the amendment of internal management reporting in 2016, the management of LEG Immo in two segments has no longer applied for the whole of the 2016 financial year. In future, the Group will be managed as one segment.

I. OTHER DISCLOSURES

1. Overview of cost types

The following cost types are contained in the various functions:

T109 – Cost types

€ million	**2016**	*2015*
Purchased services	323.2	266.4
Employee benefits	66.7	62.9
Depreciation, amortisation and write-downs	10.5	9.0
Other operating expenses	45.9	60.9

Other operating expenses include income from the reversal of write-downs and provisions.

T110 – Employee benefits

€ million	**2016**	*2015*
Wages and salaries	56.3	52.7
Social security	9.4	8.7
Pension and other benefits	1.0	1.5
Total	**66.7**	**62.9**

2. Capital management

The aim of the Group's capital management is to ensure the continued existence of the company as a going concern while generating income for its shareholders, in addition to providing all other stakeholders of the LEG Group with the benefits to which they are entitled. Overall, the aim is to increase the value of the Group as a whole.

This end-to-end capital management strategy has not changed since the previous year.

As is typical for the industry, the LEG Group monitors capital on the basis of loan-to-value (LTV). LTV describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from 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 in the long term at economically appropriate costs. LTV as at 31 December 2016 and 31 December 2015 was calculated as follows:

T111 – Net gearing (LTV)

€ million	**31.12.2016**	*31.12.2015*
Financing liabilities	3,774.3	3,241.6
Cash and cash equivalents	166.7	252.8
NET DEBT	**3,607.6**	**2,988.8**
Investment properties	7,954.9	6,398.5
Assets held for sale	57.0	6.7
Prepayments for investment properties	27.3	203.1
Prepayments for business combinations	–	146.1
TOTAL	**8,039.2**	**6,754.4**
NET GEARING (LTV) IN %	**44.9**	**44.2**

The assets held for sale shown in the above table relate solely to investment property.

The Group is subject to external capital requirements that were not breached in either the year under review or the previous year. The aims of capital management were achieved in the year under review.

Details of restricted funds can be found in section E.6.

3. Financial instruments

a) Other disclosures on financial instruments

The table below shows the financial assets and liabilities broken down by measurement category and class. Receivables and liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an 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:

T112 – Classes of financial instruments for financial assets and liabilities 2016

		Measurement (IAS 39)		*Measurement*	
€ million	*Carrying amounts as per statement of financial positions 31.12.2016*	*Amortised cost*	*Fair value through profit or loss*	*IAS 17*	*Fair value 31.12.2016*
Assets					
Other financial assets	**2.8**				**2.8**
LaR	0.1	0.1	0.0		0.1
AfS	2.7	2.7			n/a
Receivables and other assets	**55.4**				**55.4**
LaR	49.8	49.8			49.8
Other non-financial assets	5.6				5.6
Cash and cash equivalents	**166.7**				**166.7**
LaR	166.7	166.7			166.7
TOTAL	**224.9**	**219.3**	**0.0**		**224.9**
Of which IAS 39 measurement categories					
LaR	216.6	216.6			216.6
AfS	2.7	2.7			n/a
Equity and liabilities					
Financial liabilities	**–3,774.3**				**–4,087.0**
FLAC	–3,746.0	–3,746.0			–4,058.2
Liabilities from lease financing	–28.3			–28.3	–28.8
Other liabilities	**–431.9**				**–431.9**
FLAC	–40.3	–40.3			–40.3
Derivatives HFT	–138.6		–138.6		–138.6
Hedge accounting derivatives	–53.7				–53.7
Other non-financial liabilities	–199.3				–199.3
TOTAL	**–4,206.2**	**–3,786.3**	**–138.6**	**–28.3**	**–4,518.9**
Of which IAS 39 measurement categories					
FLAC	–3,786.3	–3,786.6			–4,098.5
Derivatives HFT	–138.6		–138.6		–138.6

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

T113 – Classes of financial instruments for financial assets and liabilities 2015

		Measurement (IAS 39)		Measurement	
€ million	*Carrying amounts as per statement of financial positions 31.12.2015*	*Amortised cost*	*Fair value through profit or loss*	*IAS 17*	*Fair value 31.12.2015*
Assets					
Other financial assets	**148.8**				**148.8**
LaR	0.1	0.1	0.0		0.1
AfS	148.7	148.7			n/a
Receivables and other assets	**33.2**				**33.2**
LaR	27.6	27.6			27.6
Other non-financial assets	5.6				5.6
Cash and cash equivalents	**252.8**				**252.8**
LaR	252.8	252.8			252.8
TOTAL	**434.8**	**429.2**	**0.0**		**434.8**
Of which IAS 39 measurement categories					
LaR	280.5	280.5			280.5
AfS	148.7	148.7			n/a
Equity and liabilities					
Financial liabilities	**–3,241.6**				**–3,570.0**
FLAC	–3,215.0	–3,215.0			–3,542.7
Liabilities from lease financing	–26.6			–26.6	–27.3
Other liabilities	**–359.8**				**–359.8**
FLAC	–31.3	–31.3			–31.3
Derivatives HFT	–168.8		–168.8		–168.8
Hedge accounting derivatives	–42.3				–42.3
Other non-financial liabilities	–117.4				–117.4
TOTAL	**–3,601.4**	**–3,246.3**	**–168.8**	**–26.6**	**–3,929.8**
Of which IAS 39 measurement categories					
FLAC	–3,246.3	–3,246.3			–3,574.0
Derivatives HFT	–168.8		–168.8		–168.8

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 measure the fair value of investments carried at cost (see AfS in the table above). There is no intention of disposal.

The vast majority of trade payables and other liabilities have short remaining terms, hence their carrying amounts approximate their fair value.

Originated financial instruments (liabilities from real estate and corporate financing, FLAC category), whose fair value does not correspond to their carrying amount are classified as financial liabilities. The fair value of loan liabilities is calculated as the present value of the future cash flows, taking into account the applicable risk-free interest rates and the LEG-specific risk premium as at the end of the reporting period.

Net income for each measurement category is broken down as follows:

T114 – Net income

€ million	**2016**	*2015*
LaR	–1.9	–4.1
AfS	2.4	1.9
FAHFT	–	–
FLHFT	15.3	–78.2
FLAC	–151.1	–113.6
TOTAL	**–135.3**	**–194.0**

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 Corporate Finance 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 20.7 million (previous year: EUR 17.4 million). Allowances of EUR 13.5 million (previous year: EUR 11.9 million) were recognised, hence net rent receivables of EUR 7.2 million were reported as at 31 December 2016 (previous year: EUR 5.5 million). Collateral for receivables (primarily rent deposits) of EUR 12.7 million (previous year: EUR 9.6 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:

T115 – Impaired financial assets 2016

€ million; classes of financial instruments 31.12.2016	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	0.4	0.0	0.4
Other financial assets	25.6	–2.1	23.5
Trade receivables	33.4	–14.1	19.3
Cash and cash equivalents	166.7	–	166.7
TOTAL	**226.1**	**–16.2**	**209.9**

T116 – Impaired financial assets 2015

€ million; classes of financial instruments 31.12.2015	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	1.6	–1.3	0.3
Other financial assets	159.5	–2.2	157.3
Trade receivables	30.5	–12.5	18.0
Cash and cash equivalents	252.8	–	252.8
TOTAL	**444.4**	**–16.0**	**428.4**

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.

T117 – Not impaired financial assets 2016

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€ million; classes of financial instruments 31.12.2016		*< 90 days*	*90 – 180 days*	*> 180 days*
Loans	–	–	–	–
Trade receivables	3.6	2.9	0.2	0.4
Other financial assets	1.2	0.9	0.1	0.2
TOTAL	**4.8**	**3.8**	**0.3**	**0.6**

T118 – Not impaired financial assets 2015

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€ million; classes of financial instruments 31.12.2015		*< 90 days*	*90 – 180 days*	*> 180 days*
Loans	0.3	–	–	0.3
Trade receivables	2.9	2.5	0.1	0.3
Other financial assets	0.7	0.4	0.1	0.2
TOTAL	**3.9**	**2.9**	**0.2**	**0.8**

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 standardised allowances in addition to specific allowances, using various rates depending on the extent to which the respective receivables are past due.

T119 – Impairment losses 2016

€ million	As of 01.01.2016	Change remeasurement	Addition	Utilisation	As of 31.12.2016
Loans and receivables	1.3	–	–	–1.3	0.0
Trade receivables	12.3	0.0	11.8	–10.1	14.0
Other financial assets	0.9	–	3.9	–3.3	1.5
TOTAL	**14.5**	**0.0**	**15.7**	**–14.7**	**15.5**

T120 – Impairment losses 2015

€ million	As of 01.01.2015	Change remeasurement	Addition	Utilisation	As of 31.12.2015
Loans and receivables	1.3	–	–	–	1.3
Trade receivables	10.5	–0.7	10.0	–7.5	12.3
Other financial assets	1.6	–	1.7	–2.4	0.9
TOTAL	**13.4**	**–0.7**	**11.7**	**–9.9**	**14.5**

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 50.4 million (previous year: EUR 27.9 million).

The following table shows the contractually agreed (undiscounted) interest and principal payments for the LEG Group's primary financial liabilities and its derivative financial instruments with negative fair value. The maturities are based on the contractually agreed fixed interest periods for the respective financial liabilities.

T121 – Type of liabilities on 31.12.2016

	Carrying amount	Remaining terms		
€ million		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	3,746.0	603.5	867.8	3,040.4
Financing liabilities from lease financing	28.3	6.3	13.3	8.7
Interest rate derivatives	57.5	14.4	43.6	0.1
Embedded derivatives	134.7	–	–	–
Liabilities to employees	9.0	8.3	–	0.7
Liabilities from operating costs	0.6	0.6	–	–
Rent and lease liabilities	15.1	15.1	–	–
Liabilities from shareholder loans	0.3	0.3	–	–
Trade payables	68.1	65.2	2.9	0.0
Others	51.9	5.8	7.5	38.6
TOTAL	**4,111.5**	**719.5**	**935.1**	**3,088.5**

The rise in non-current financial liabilities from loans liabilities is due in particular to refinancing carried out in 2015.

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.

Together with the acquisition financing and refinancing, this led to an increase and shift in the remaining terms of financial liabilities from loan liabilities.

T122– Type of liabilities on 31.12.2015

	Carrying amount	*Remaining terms*		
€ million		*< 1 year*	*1 – 5 years*	*> 5 years*
Financing liabilities from loan payable	3,215.0	551.0	739.9	2,809.1
Financing liabilities from lease financing	26.6	4.7	12.4	9.5
Interest rate derivatives	57.9	17.3	43.6	–1.8
Embedded derivatives	153.2	–	–	–
Liabilities to employees	7.9	7.7	–	0.2
Liabilities from operating costs	0.5	0.5	–	–
Rent and lease liabilities	13.9	13.9	–	–
Liabilities from shareholder loans	0.2	0.2	–	–
Trade payables	46.4	43.7	2.7	0.0
Others	43.3	4.5	–	38.8
TOTAL	**3,564.9**	**643.5**	**798.6**	**2,855.8**

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 2016 financial year.

d) Market risks

The LEG Group is subject to significant interest rate risks on account of its business activities. Interest rate risk results, in particular, from floating-rate liabilities to banks. In order to limit interest rate risk, the LEG Group generally enters into fixed-income loans or floating-rate loans, sometimes in connection with interest payer swaps. Around 93% 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 2016:

T123 – Derivatives 2016

€ million on 31.12.2016	*Fair value*	*thereof < 1 year*
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	−138.5	–
thereof from interest rate swaps	−3.8	–
thereof embedded derivatives	−134.7	–
Hedged derivatives	−53.7	–

The Group had the following derivative financial instruments as at 31 December 2015:

T124 – Derivatives 2015

€ million on 31.12.2015	*Fair value*	*thereof < 1 year*
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	−168.8	0.0
thereof from interest rate swaps	−15.6	0.0
thereof embedded derivatives	−153.2	–
Hedged derivatives	−42.3	–

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 2017 and 2027 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:

T125 – Equity implication

€ million	**2016**	*2015*
OPERATING BALANCE AS OF 01.01.	**−45.4**	**−87.0**
Recognised in equity in reporting period	−24.7	−15.9
Reserved from equity to statement of comprehensive income	18.2	57.5
CLOSING BALANCE AS OF 31.12.	**−51.9**	**−45.4**

Sensitivities:

In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses to determine the impact that a change in market interest rates would have on the interest income and expense, trading gains and losses and the equity of the LEG Group as at the end of the reporting period.

The effects on the LEG Group's equity and statement of comprehensive income are analysed using a +/−50 bp parallel shift in the euro yield curve in the sensitivity analysis. The cash flow effects from the shift in the yield curve relate solely to interest expense and income for the next reporting period.

Based on the financial instruments held or issued by the LEG Group as at the end of the reporting period, a hypothetical change in the applicable interest rates for the respective instruments as quantified using sensitivity analysis would have had the following effects (before taxes) as at the end of the reporting period:

T126 – Financial instruments 2016

	Equity effect		*Comprehensive income effect*	
€ million on 31.12.2016	*+50 bp*	*−50 bp*	*+50 bp*	*−50 bp*
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	−2.4	2.4
Interest rate derivatives	25.1	−25.1	0.6	−0.6
Embedded derivatives	–	–	−6.4	6.6

bp = basis points

T127 – Financial instruments 2015

	Equity effect		*Comprehensive income effect*	
€ million on 31.12.2015	*+50 bp*	*−50 bp*	*+50 bp*	*−50 bp*
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	−2.5	2.5
Interest rate derivatives	26.9	−24.3	3.7	−3.5
Embedded derivatives	–	–	−7.5	7.8

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 20.9 million higher (lower).

e) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T128 – Financial assets

€ million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts, which are not netted in the balance sheet: Financial instruments	Related amounts, which are not netted in the balance sheet: Received cash deposits	Net amount
31.12.2016						
Inventories in progress	236.1	–227.2	8.9	–	–	8.9
Cash and cash equivalents	166.7	–	166.7	–4.8	–	161.9
TOTAL	**402.8**	**–227.2**	**175.6**	**–4.8**	**–**	**170.8**
31.12.2015						
Inventories in progress	195.5	–190.6	4.9	–	–	4.9
Cash and cash equivalents	252.8	–	252.8	–9.8	–	243.0
TOTAL	**448.3**	**–190.6**	**257.7**	**–9.8**	**–**	**247.9**

The following financial liabilities are subject to offsetting:

T129 – Financing liabilities

€ million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts, which are not netted in the balance sheet: Financial instruments	Related amounts, which are not netted in the balance sheet: Received cash deposits	Net amount
31.12.2016						
Advanced payments received	261.0	227.2	–33.8	–	–	–33.8
Financing liabilities from real estate financing	–3,746.0	–	–3,746.0	4.8	–	–3,741.5
TOTAL	**–3,485.0**	**227.2**	**–3,779.8**	**4.8**	**–**	**–3,775.3**
31.12.2015						
Advanced payments received	–213.5	190.6	–22.9	–	–	–22.9
Financing liabilities from real estate financing	–3,215.0	–	–3,215.0	9.8	–	–3,205.2
TOTAL	**–3,428.5**	**190.6**	**–3,237.9**	**9.8**	**–**	**–3,228.1**

The contractually agreed terms and conditions of banks for liens give rise to a claim to offset loan utilisation against the credit balances of the individual companies.

4. Number of employees

The average number of employees in the LEG Group developed as follows as against the previous year:

T130 – Average number of employees

	Average number of employees 2016	Employee capacity (FTE) 2016	*Average number of employees 2015*	*Employee capacity (FTE) 2015*
Operations	699	609	671	568
Management	176	160	182	168
Special entities	80	77	79	75
TOTAL	**955**	**846**	**932**	**811**

5. Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T131 – Total auditor's fees

€ million	**2016**	*2015*
Audits of financial statements	1.0	1.0
Other audit services	1.6	0.5
TOTAL FEE	**2.6**	**1.5**

6. IFRS 2 programmes

a) Long-term incentive plan with former shareholders

As a result of the IPO of LEG Immo, claims arose as at 31 December 2016 from agreements between former shareholders and 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 0.0 million of this was recognised as an expense at LEG Immo as at 31 December 2016 (2015: EUR 0.2 million).

b) LTI Management Board agreements

The 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.

By way of resolution of the Supervisory Board on 31 May 2016, a new Management Board agreement was concluded with Mr Holger Hentschel. The following adjustments to Mr Holger Hentschel's remuneration were resolved with effect from 1 July 2016:

— Increase in basic remuneration from EUR 300,000 p.a. to EUR 350,000 p.a.
— Increase in the STI programme (on 100% target attainment) from EUR 200,000 p.a. to EUR 250,000 p.a.
— Increase in the annual LTI programme (on 100% target attainment) from EUR 250,000 p.a. to EUR 300,000 p.a.

The replacement of the old agreement by the new agreement is accounted for as a modification of existing agreements in accordance with IFRS 2.28 f. This requires that the old commitment of the LTI programme for Mr Hentschel 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.

T132 – Calculated fair value of LTI-Promise

€ thousand	*Fair value old contracts*	*Fair value new contracts*	*Incremental Fair value*
Holger Hentschel	141	169	28
TOTAL	**141**	**169**	**28**

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. On the basis of an assessment of the Management Board on the attainment of performance hurdles 2013-2017, staff costs of EUR 0.8 million (2015: EUR 0.8 million) were recognised as at 31 December 2016. The provision for long-term incentive plans amounted to EUR 1.5 million as at 31 December 2016 (previous year: EUR 1.2 million).

A target level of 48% was achieved for LTI 2017 and of 55.3% for LTI 2016 (LTI 2015: 80.3%; LTI 2014: 95.3%; LTI 2013: 100%). Details on Management Board agreements can also be found in the remuneration report.

The total intrinsic value of liabilities at the end of the reporting period for which the counterparty's right to receive cash and cash equivalents or other assets was vested as at the end of the reporting period was EUR 800.6 thousand as at 31 December 2016 (previous year: EUR 503.3 thousand).

7. Related-party disclosures

Related parties are defined as companies and persons that have the ability to control the LEG Group or exercise significant influence over its financial and business policy. The existing control relationships were taken into account when determining the significant influence that related parties can exercise over the LEG Group's financial and business policy.

Related persons

The related persons of LEG Immo include the Management Board and the Supervisory Board of LEG Immobilien AG. The Management Board of LEG Immobilien AG and the Management Team at LEG NRW GmbH consist of the same persons.

Related companies

LEG Immo's related companies include all the subsidiaries and associates of the LEG Group and certain entities not included in consolidated financial statements.

The following table shows the receivables from and liabilities to related companies as at the end of the reporting period and expenses and income involving related companies for the financial year:

T133 – Receivables from and liabilities to related companies

€ million	**31.12.2016**	*31.12.2015*
Statement of financial positions		
Liabilities to shareholders	0.3	0.2
Liabilities to non-consolidated companies	0.0	0.1

T134 – Income from and expenses for related companies

€ million	**2016**	*2015*
Statement of comprehensive income		
Income from associates	0.3	0.0
Income from equity investments	2.1	1.9

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:

T135 – Compensation package of the Management Board

€ thousand	**2016**	*2015*
Fixed remuneration	1,313	1,174
Ancillary benefits	86	79
Total fixed benefits	1,399	1,253
Short-Term-Incentive-Programme (STI)	862	764
Long-Term-Incentive-Programme (LTI)	1,033	502
Total variable benefits	1,895	1,266
TOTAL	**3,294**	**2,519**

The additional benefits for members of the Management Board amounted to EUR 86 thousand in the past financial year (previous year: EUR 79 thousand).

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 2016 (2015) an amount of EUR 0.4 million (EUR 0.3 million) was recognised in staff costs for Mr Thomas Hegel, of EUR 0.3 million (EUR 0.3 million) for Mr Eckhard Schultz and EUR 0.2 million (EUR 0.2 million) for Mr Holger Hentschel.

In addition, expenses of EUR 0.0 million were recognised from the long-term incentive plans with former shareholders in the reporting year (2015: EUR 0.2 million). Please see section I.6.

No loans or advances were granted or extended to the members of the Management Board in the 2016 financial year.

The total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.6 million in 2016 (2015: EUR 0.5 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2016 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:

T136 – Benefits to the Management and Supervisory Board

€ thousand	**2016**	*2015*
Current payable benefits	2,903	2,356
Benefits after termination of the employment	30	31
Other long-term payable benefits	0	0
Benefits in cause of the termination of employment	0	0
Share-based payment	841	746
TOTAL	**3,774**	**3,133**

Further information can be found in the remuneration report, which forms part of the management report.

8. Guarantees and contingent liabilities

The LEG Group has the following contingent liabilities:

T137 – Contingent liabilities

€ million	**31.12.2016**	*31.12.2015*
Land charges	3,620.1	3,171.5
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.

Contingent liabilities

LEG has acquired certain portfolios in combined asset deal/share deal transaction structures.

The real estate transfer tax assessments issued in this regard have so far been in line LEG's tax law opinion.

For the most recent acquisition performed in line with this model, the tax authorities expressed a different legal opinion, which would result in an increase in real estate transfer tax of EUR 9.5 million. LEG appealed against the basic assessment notice issued in this context on 25 May 2016 and applied for a suspension of execution, which was granted even without the provision of collateral. Given the overwhelming prospects that this appeal will be successful, an opinion shared by LEG and various tax experts, this does not have to be recognised in the statement of financial position. It will be presented as a contingent liability.

If LEG's tax assessment regarding all portfolio acquisitions undertaken in this transaction structure proves to be inaccurate, higher real estate transfer tax would be charged on the total market value of the land in these transactions. The additional charge would be approximately EUR 26.8 million (including the above EUR 9.5 million).

Other financial commitments

The Group's other financial commitments are composed as follows:

T138 – Other financial commitments

€ million	**31.12.2016**	*31.12.2015*
Future payments under operating leases	82.5	76.5
Factory management obligations	2.5	–
Purchase of energy	12.6	–
Purchase obligations	11.5	4.3

Contractual obligations to purchase energy are reported for the first time as at 31 December 2016.

Future payments under operating leases result, in particular, from obligations for land with third-party heritable building rights in the amount of EUR 69.5 million (2015: EUR 61.5 million) and rental obligations in the amount of EUR 10.8 million (2015: EUR 12.3 million).

Future payment obligations under non-cancellable operating leases are broken down as follows:

T139 – Minimum lease payments

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2016	4.7	13.8	64.0	82.5
31.12.2015	5.2	12.9	58.4	76.5

The cost of minimum lease payments was EUR 3.4 million in the 2016 financial year (2015: EUR 3.2 million).

T140 – Factory management obligations

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2016	0.6	1.9	–	2.5
31.12.2015	–	–	–	–

9. 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-Böckler-Strasse 38
40476 Dusseldorf
Germany
Commercial register: HRB 69386
Dusseldorf

10. Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members.

The following members were elected by the shareholders' meeting:

MR MICHAEL ZIMMER
– Chairman –, businessman, Pulheim

MS NATALIE C. HAYDAY,
freelance capital market and investor relations consultant, Frankfurt

MR STEFAN JÜTTE,
Deputy Chairman, businessman, Bonn

DR JOHANNES LUDEWIG,
business consultant, Berlin

DR JOCHEN SCHARPE,
managing partner, AMCI GmbH, Munich

DR CLAUS NOLTING,
senior advisor at Lone Star Germany,
Frankfurt – from 19 May 2016

11. Events after the end of the reporting period

The acquisition of a property portfolio of around 322 residential units was notarised on 17 August 2016. The portfolio generates annual net cold rent of initially around EUR 2.0 million. The average in-place rent is EUR 4.62 per square metre; the initial vacancy rate is 2.1%. The transaction was closed on 1 January 2017. The portfolio acquisition does not constitute a business combination.

On 14 December 2016, LEG Immo signed a purchase agreement with B&O Service und Messtechnik AG to acquire 51% of shares in TSP-TechnikServicePlus GmbH (formerly: B&O Service West GmbH). 280 employees were taken on in the context of the transaction. Following antitrust approval, the transaction was closed as at 1 January 2017.

As at 1 January 2017, the acquisition of the company is treated as a business combination as defined by IFRS 3 as significant business processes had been acquired.

The provisional consideration for the business combination breaks down as follows:

T141 – Provisional consideration

€ million	*01.01.2017*
Net purchase price	9.2
Prospective compensation payment	0.0
TOTAL CONSIDERATION	9.2

The provisional purchase price can be allocated to the assets and liabilities acquired, measured at fair value, as follows:

T142 – Provisional purchase price allocation

€ million	*01.01.2017*
Technical equipment and machinery	0.5
Factory and office equipment	0.0
Receivables and other assets	0.4
Cash and cash equivalents	0.2
TOTAL ASSETS	**1.1**
Provisions	0.8
Other financing liabilities	1.2
Other liabilities	1.0
TOTAL LIABILITIES	**3.0**
Net assets at fair value	–1.9
Non-controlling interests	0.2
Net assets at fair value without non-controlling interests	–2.1
CONSIDERATION	**9.2**
GOODWILL	**11.3**

Synergies from tax and cost benefits of provisionally a mid-seven-figure amount per year are anticipated.

The transaction costs of the business combination amount to EUR 0.1 million and essentially include legal and consulting costs.

In addition to the total consideration, the purchase price allocation is essentially provisional for the following items as the data are not yet complete:

— Contingent liabilities
— Accounting for leases
— Deferred taxes.

On 16 January 2017 LEG Immo placed its first unsecured, fixed-rate corporate bond with a nominal value of EUR 500 million. The bond matures on 23 January 2024 and bears interest with a coupon of 1.25% p.a. The rating agency Moody's Investors Service Limited rated the bond Baa1 in line with LEG's corporate rating.

With this transaction, LEG Immo has secured long-term attractive conditions on the financing markets and lasting access to the market for corporate bonds. The net proceeds of the bond will primarily be used to refinance existing subsidised and bank loans and for general business purposes, and mean a further diversification of LEG's sources of financing.

The refinancing is expected to reduce LEG Immo's average financing costs to less than 2.0%, with the average maturity of its liabilities still long at around 10 years.

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

12. 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 *www.leg-wohnen.de/fileadmin/user_upload/Assets/PDFs/Unternehmen/Investor_Relations/Corporate_Governance/Compliance_Statement_161AktG-Nov2016.pdf*

Dusseldorf, 7 March 2017

LEG Immobilien AG

The Management Board
THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

J. LIST OF SHAREHOLDINGS

The following table shows an overview of the basis of consolidation of the LEG Group:

T143 – Consolidated companies

		Share of capital %	*Equity * € thousand*	*Result * € thousand*
LEG Immobilien AG, Dusseldorf		Parent company		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	109,456	–6
LEG NRW GmbH, Dusseldorf	2)	99.98	1,118,446	52,339
LEG Wohnen GmbH, Dusseldorf	2)	100.00	559,031	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0***
Solis GmbH, Dusseldorf	1)	94.90	103,833	0
Rheinweg Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	86,392	0
Luna Immobilienbeteiligungs GmbH, Dusseldorf	1)	94.90	10,196	0
Rheinweg Zweite Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	78,525	0**
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0***
Noah Asset 4 GmbH, Dusseldorf	2)	94.90	1,803	0
LEG Wohnen Bocholt GmbH, Dusseldorf	2)	100.00	25	0
LEG Bauen und Wohnen GmbH, Dusseldorf	2)	100.00	2,165	0
LCS Consulting und Service GmbH, Dusseldorf	1)	100.00	2,556	0
LEG Consult GmbH, Dusseldorf	3)	100.00	302	0
GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH, Münster	2)	94.86	74,582	0
GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Münster	2)	100.00	77	0
LEG Rheinrefugium Köln GmbH, Dusseldorf	2)	94.00	34	0
Calor Caree GmbH, Dusseldorf	2)	94.00	25	0
LEG Beteiligungsverwaltungsgesellschaft mbH, Dusseldorf	1)	100.00	13,745	0
LEG Grundbesitzerwerb 1 GmbH & Co. KG, Dusseldorf	1)	100.00	–481	–223
LEG Grundbesitzerwerb 2 GmbH & Co. KG, Dusseldorf	1)	100.00	–150	–152
LEG Grundbesitzerwerb 3 GmbH & Co. KG, Dusseldorf	1)	100.00	15	–1
LEG Grundstücksverwaltung GmbH, Dusseldorf	2)	100.00	25,863	0
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0***
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	345	0***
LEG Wohnen Service GmbH, Dusseldorf	1)	100.00	50	0
LEG Solution GmbH, Dusseldorf	3)	100.00	66,718	0
LEG Wohnviertel Dyk GmbH, Dusseldorf	2)	100.00	22	–1
LEG Standort- und Projektentwicklung Köln GmbH, Dusseldorf	2)	100.00	13,753	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Liebenscheid	5)	94.86	–2,305	1,307
LEG Grundstücksentwicklung Münsterland GmbH, Dusseldorf	2)	100.00	15	73
Grundstücksentwicklungsgesellschaft Ennigerloh Süd-Ost mbH, Cologne	2)	94.90	–7,397	–164
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0***
Gemeinnützige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Höxter	2)	100.00	11,909	0
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0***
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0
Wohnungsgesellschaft Münsterland mbH, Münster	2)	100.00	164,978	0***
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Münster	2)	100.00	114	0
LEG Erste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Zweite Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Dritte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Vierte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0

T143 – Consolidated companies

		Share of capital %	*Equity * € thousand*	*Result * € thousand*
LEG Fünfte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Sechste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Siebte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Achte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Neunte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
SW Westfalen Invest GmbH, Dusseldorf	2)	94.90	78,957	0
LEG Recklinghausen 1 GmbH, Dusseldorf	2)	94.90	21,092	–291
LEG Recklinghausen 2 GmbH, Dusseldorf	2)	94.90	10,548	140
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0***
EnergieServicePlus GmbH, Dusseldorf	4)	51.00	2,501	75
Grundstücksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	3,058	0
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Dusseldorf	2)	94.90	24,986	*** 1,173**
AWM Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	2,318	0
Vitus Service GmbH, Dusseldorf	1)	100.00	29	0
BRE/GEWG GmbH, Dusseldorf	1)	100.00	24,169	0
Gemeinnützige Eisenbahn Wohnungsbaugesellschaft mbH, Dusseldorf	2)	94.90	6,496	0

* 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 2016. A zero result is shown in the event of there being a profit transfer agreement in place.
** Earnings before loss absorption and after profit transfer
*** Exemption in accordance with section 264(3) HGB

Activities of subsidiaries:

1) Performance of services and management of equity investments within the LEG Group
2) Property management and location development
3) Performance of services for third parties
4) Performance of housing industry services
5) Electricity and heat generation

T144 – 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	1,391	–96
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Dusseldorf	2)	100.00	25	–7
LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	3)	100.00	100	–2
Grundstücksentwicklungsgesellschaft Essen-Kettwig-Ruhrufer GmbH, Essen	3)	100.00	0	0

* These figures are the separate HGB equity and results as at 31 December 2015, for LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf, the separate HGB equity and results as at 31 December 2016.

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

T145 – Associates accounted for using the equity method

	Share of capital %	*Equity * € thousand*	*Result * € thousand*
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	19,402	675
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3,596	49

* These figures are the separate HGB equity and results as at 31 December 2016, for Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück, the separate HGB equity and results as at 31 December 2015.

T146 – Associates not accounted for using the equity method

	Share of capital %	*Equity * € thousand*	*Result * € thousand*
Projektverwaltungsgesellschaft Mönchengladbach – Area of Sports GmbH, Mönchengladbach	50.00	24	0

* These figures are the HGB single-entity equity and result as at 31 December 2015.

CONSOLIDATED STATEMENT OF CHANGES IN ASSETS/ANNEX I

T147 – Consolidated statement of changes in assets 2016

	Costs									
€ million	*As of 01.01.2016*	*Adjustment due to finalisation PPA Vitus*	*As of 01.01.2016*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*	
Property, plant and equipment	**109.4**	**–**	**109.4**	**–**	**11.3**	**–1.9**	**2.0**	**–0.5**	**–0.4**	
Land, land rights and buildings	26.5	–	26.5	–	0.2	–0.2	2.0	–0.5	–0.4	
Technical equipment and machinery	37.6	–	37.6	–	5.4	–0.4	–	–	–	
Other equipment, operating and office equipment	8.5	–	8.5	–	0.5	–0.2	–	–	–	
Finance leases	36.8	–	36.8	–	5.2	–1.1	–	–	–	
Intangible assets	**74.4**	**–**	**74.4**	**15.0**	**1.5**	**–**	**–**	**–**	**–**	
Other intangible assets	13.5	–	13.5	–	1.5	–	–	–	–	
Goodwill	60.9	–	60.9	15.0	–	–	–	–	–	
TOTAL	**183.8**	**–**	**183.8**	**15.0**	**12.8**	**–1.9**	**2.0**	**–0.5**	**–0.4**	

T148 – Consolidated statement of changes in assets 2015

	Costs									
€ million	*As of 01.01.2015*	*Adjustment due to finalisation PPA Vitus*	*As of 01.01.2015**	*Additions from consolidated companies*	*Additions*	*Disposals*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*	
Property, plant and equipment	**111.2**	**–**	**111.2**	**–**	**5.0**	**–3.5**	**0.3**	**–3.6**	**–**	
Land, land rights and buildings	26.2	–	26.2	–	0.1	–	0.3	–0.1	–	
Technical equipment and machinery	36.0	–	36.0	–	1.8	–0.2	–	–	–	
Other equipment, operating and office equipment	9.6	–	9.6	–	0.6	–1.7	–	–	–	
Finance leases	39.4	–	39.4	–	2.5	–1.6	–	–3.5	–	
Intangible assets	**74.6**	**–0.7**	**73.9**	**–**	**0.6**	**–0.1**	**–**	**–**	**–**	
Other intangible assets	13.0	–	13.0	–	0.6	–0.1	–	–	–	
Goodwill	61.6	–0.7	60.9	–	–	–	–	–	–	
TOTAL	**185.8**	**–0.7**	**185.1**	**–**	**5.6**	**–3.6**	**0.3**	**–3.6**	**–**	

* Adjustment arising from final purchase price allocation of Vitus transaction

	Cumulative depreciation, amortisation and write-downs/fair values						*Carrying amounts*	
As of 31.12.2016	*As of 01.01.2016*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Disposal to investment properties*	**As of 31.12.2016**	**As of 31.12.2016**	*As of 31.12.2015*
119.9	**–50.3**	**–**	**–8.0**	**1.6**	**–**	**–56.7**	**63.2**	**59.1**
27.6	–3.9	–	–0.6	–	–	–4.5	23.1	22.6
42.6	–22.4	–	–2.8	0.3	–	–24.9	17.7	15.2
8.8	–7.1	–	–0.5	0.2	–	–7.4	1.4	1.4
40.9	–16.9	–	–4.1	1.1	–	–19.9	21.0	19.9
90.9	**–11.4**	**–**	**–2.5**	**–**	**–**	**–13.9**	**77.0**	**63.0**
15.0	–11.4	–	–2.5	–	–	–13.9	1.1	2.1
75.9	–	–	–	–	–	–	75.9	60.9
210.8	**–61.7**	**–**	**–10.5**	**1.6**	**–**	**–70.6**	**140.2**	**122.1**

	Cumulative depreciation, amortisation and write-downs/fair values						*Carrying amounts*	
As of 31.12.2015	*As of 01.01.2015*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Disposal to investment properties*	**As of 31.12.2015**	**As of 31.12.2015**	*As of 31.12.2014*
109.4	**–46.6**	**–**	**–7.2**	**3.3**	**0.2**	**–50.3**	**59.1**	**64.6**
26.5	–3.4	–	–0.5	–	–	–3.9	22.6	22.8
37.6	–20.2	–	–2.4	0.2	–	–22.4	15.2	15.8
8.5	–8.2	–	–0.5	1.6	–	–7.1	1.4	1.4
36.8	–14.8	–	–3.8	1.5	0.2	–16.9	19.9	24.6
74.4	**–9.8**	**–**	**–1.7**	**0.1**	**–**	**–11.4**	**63.0**	**64.8**
13.5	–9.8	–	–1.7	0.1	–	–11.4	2.1	3.2
60.9	–	–	–	–	–	–	60.9	61.6
183.8	**–56.4**	**–**	**–8.9**	**3.4**	**0.2**	**–61.7**	**122.1**	**129.4**

CONSOLIDATED STATEMENT OF CHANGES IN PROVISIONS/ANNEX II

T149 – Consolidated statement of changes in provisions 2016

€ million	*As of 01.01.2016*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification*	
Staff provisions						
Staff provisions	1.4	–	−0.7	−0.1	–	
Other provisions	**29.1**	**–**	**−4.7**	**−1.1**	**–**	
Provisions of lease properties	0.8	–	–	–	–	
Construction book provisions	4.3	–	−0.5	–	–	
Litigations risks	2.2	–	−0.6	−0.4	–	
Other provisions	21.8	–	−3.6	−0.7	–	
TOTAL	**30.5**	**–**	**−5.4**	**−1.2**	**–**	

T150 – Consolidated statement of changes in provisions 2015

€ million	*As of 01.01.2015*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification*	
Staff provisions						
Staff provisions	1.8	–	−0.9	–	–	
Other provisions	**30.3**	**–**	**−6.8**	**−3.3**	**–**	
Provisions of lease properties	1.9	–	−1.1	−0.1	–	
Construction book provisions	4.7	–	−1.0	−0.7	−0.1	
Litigations risks	4.4	–	−0.7	−2.0	0.1	
Other provisions	19.3	–	−4.0	−0.5	–	
TOTAL	**32.1**	**–**	**−7.7**	**−3.3**	**–**	

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2016**	*Non-current*	*Current*
	0.6	–	–	1.2	0.5	0.7
	3.2	**0.1**	**–**	**26.6**	**11.5**	**15.1**
	–	–	–	0.8	0.5	0.3
	0.2	–	–	4.0	0.5	3.5
	0.1	–	–	1.3	0.4	0.9
	2.9	0.1	–	20.5	10.1	10.4
	3.8	**0.1**	**–**	**27.8**	**12.0**	**15.8**

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2015**	*Non-current*	*Current*
	0.5	–	–	1.4	0.7	0.7
	8.7	**0.2**	**–**	**29.1**	**10.7**	**18.4**
	0.1	–	–	0.8	0.6	0.2
	1.4	–	–	4.3	0.8	3.5
	0.4	–	–	2.2	0.1	2.1
	6.8	0.2	–	21.8	9.2	12.6
	9.2	**0.2**	**–**	**30.5**	**11.4**	**19.1**

OVERVIEW OF VOTING RIGHT NOTIFICATIONS/ ANNEX III

T151 – Overview of notifications of major holdings

Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	
BlackRock, Inc.	Wilmington, DE	USA	07.03.16	1, 3	02.03.16	
BlackRock, Inc.	Wilmington, DE	USA	10.03.16	1, 3	07.03.16	
BlackRock, Inc.	Wilmington, DE	USA	11.03.16	1, 2	08.03.16	
BlackRock, Inc.	Wilmington, DE	USA	15.03.16	1, 2, 3	10.03.16	
BlackRock, Inc.	Wilmington, DE	USA	16.03.16	1, 3	11.03.16	
BlackRock, Inc.	Wilmington, DE	USA	18.03.16	1, 2	15.03.16	
BlackRock, Inc.	Wilmington, DE	USA	30.03.16	2	23.03.16	
BlackRock, Inc.	Wilmington, DE	USA	04.04.16	1	30.03.16	
BlackRock, Inc.	Wilmington, DE	USA	05.04.16	1, 3	31.03.16	
BlackRock, Inc.	Wilmington, DE	USA	06.04.16	1, 3	01.04.16	
BlackRock, Inc.	Wilmington, DE	USA	20.04.16	1, 4	13.04.16	
BlackRock, Inc.	Wilmington, DE	USA	20.04.16	1, 2	15.04.16	
BlackRock, Inc.	Wilmington, DE	USA	29.04.16	1, 4	22.04.16	
BlackRock, Inc.	Wilmington, DE	USA	03.05.16	1, 4	28.04.16	
BlackRock, Inc.	Wilmington, DE	USA	12.05.16	1, 4	09.05.16	
BlackRock, Inc.	Wilmington, DE	USA	15.06.16	1, 4	10.06.16	
Sun Life Financial Inc.	Toronto, Ontario	Canada	24.06.16	1	20.06.16	
BlackRock, Inc.	Wilmington, DE	USA	24.06.16	1, 4	22.06.16	
CBRE Clarion Securities LLC	Radnor	USA	30.06.16	1	28.06.16	
CBRE Clarion Securities LLC	Radnor	USA	05.07.16	1	05.07.16	
CBRE Clarion Securities LLC	Radnor	USA	13.07.16	1	11.07.16	
BlackRock, Inc.	Wilmington, DE	USA	17.08.16	1, 4	12.08.16	
BlackRock, Inc.	Wilmington, DE	USA	18.08.16	1, 4	15.08.16	
BlackRock, Inc.	Wilmington, DE	USA	29.09.16	1	26.09.16	
BlackRock, Inc.	Wilmington, DE	USA	18.10.16	1, 4	13.10.16	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	01.11.16	1, 2	26.10.16	
BlackRock, Inc.	Wilmington, DE	USA	01.11.16	1	27.10.16	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	04.11.16	1	28.10.16	
BlackRock, Inc.	Wilmington, DE	USA	11.11.16	1	08.11.16	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	24.11.16	2	18.11.16	
BlackRock, Inc.	Wilmington, DE	USA	07.12.16	1, 4	02.12.16	
BNP Paribas Investment Partners S.A.	Paris	France	16.12.16	1	07.12.16	

		Total voting rights[1]			
		Voting rights attached to shares in % (in absolute terms)			
	Names of shareholders holding 3% or more voting rights	*direct*	*indirect*	*Voting rights through instruments*	*Total voting rights*
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.59 % (11,666,113)	1.54 %	20.12 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.49 % (11,603,922)	1.54 %	20.03 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.44 % (11,575,026)	1.54 %	19.98 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.37 % (11,530,441)	1.52 %	19.89 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.40 % (11,546,955)	1.53 %	19.93 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.48 % (11,597,010)	1.55 %	20.03 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.24 % (11,452,089)	1.75 %	19.999 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.27 % (11,468,805)	1.77 %	20.04 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.27 % (11,468,567)	1.76 %	20.03 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.32 % (11,498,292)	1.75 %	20.07 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.29 % (11,478,966)	1.77 %	20.06 %
	BlackRock Global Funds; BNY Mellon Trust & Depositary (UK) Limited	0.00 % (0)	18.13 % (11,380,638)	1.77 %	19.90 %
	BlackRock Global Funds	0.00 % (0)	17.39 % (10,917,784)	1.60 %	18.99 %
	BlackRock Global Funds	0.00 % (0)	17.04 % (10,694,963)	1.56 %	18.60 %
	BlackRock Global Funds	0.00 % (0)	16.94 % (10,631,209)	1.57 %	18.50 %
	BlackRock Global Funds	0.00 % (0)	16.76 % (10,592,992)	1.77 %	18.53 %
	–	0.00 % (0)	10.03 % (6,335,583)	0.00 %	10.03 %
	BlackRock Global Funds	0.00 % (0)	16.52 % (10,441,470)	1.60 %	18.12 %
	–	0.00 % (0)	4.99 % (3,152,092)	0.00 %	4.99 %
	–	0.00 % (0)	5.003 % (3,161,223)	0.00 %	5.003 %
	–	0.00 % (0)	4.999 % (3,158,643)	0.00 %	4.999 %
	BlackRock Global Funds	0.00 % (0)	15.71 % (9,926,567)	1.53 %	17.24 %
	BlackRock Global Funds	0.00 % (0)	15.55 % (9,825,826)	1.52 %	17.07 %
	BlackRock Global Funds	0.00 % (0)	14.94 % (9,440,028)	1.59 %	16.53 %
	BlackRock Global Funds	0.00 % (0)	13.68 % (8,642,699)	2.79 %	16.47 %
	–	4.05 % (2,558,221)	0.00 % (0)	1.84 %	5.89 %
	BlackRock Global Funds	0.00 % (0)	15.10 % (9,542,063)	1.57 %	16.67 %
	–	2.83 % (1,786,333)	0.00 % (0)	1.84 %	4.66 %
	BlackRock Global Funds	0.00 % (0)	14.99 % (9,473,745)	1.54 %	16.53 %
	–	2.78 % (1,759,270)	0.00 % (0)	2.49 %	5.27 %
	BlackRock Global Funds	0.00 % (0)	14.44 % (9,123,294)	1.41 %	15.84 %
	–	0.00 % (0)	3.02 % (1,911,013)	0.09 %	3.11 %

T151 – Overview of notifications of major holdings

Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	
AXA S.A.	Paris	France	16.12.16	1	13.12.16	
AXA S.A.	Paris	France	16.12.16	1	14.12.16	
BlackRock, Inc.	Wilmington, DE	USA	19.12.16	1	14.12.16	
BlackRock Global Funds	Luxembourg	Luxembourg	20.12.16	1	14.12.16	
BlackRock, Inc.	Wilmington, DE	USA	22.12.16	1, 4	19.12.16	
BlackRock, Inc.	Wilmington, DE	USA	23.12.16	1, 4	20.12.16	
Schroders plc	London	England	23.12.16	1	20.12.16	
Schroders plc	London	England	23.12.16	1, 3	21.12.16	
BNP Paribas Investment Partners S.A.	Paris	France	30.12.16	1	28.12.16	

Reason for notification:
1) Acquisition/disposal of shares with voting rights
2) Acquisition/disposal of instruments
3) Voluntary group notification
4) Voluntary group notification with triggered threshold on subsidiary level

[1] Number of shares: 62,769,788 until 31.05.2016 and 63,188,185 from 01.06.2016

		Total voting rights[1]			
	Names of shareholders holding 3% or more voting rights	*Voting rights attached to shares in % (in absolute terms)* direct	indirect	*Voting rights through instruments*	*Total voting rights*
	–	0.00 % (0)	3.002 % (1,896,730)	0.19 %	3.19 %
	–	0.00 % (0)	2.99 % (1,891,130)	0.19 %	3.18 %
	BlackRock Global Funds	0.00 % (0)	13.23 % (8,360,656)	1.42 %	14.65 %
	–	4.71 % (2,977,635)	0.00 % (0)	0.00 %	4.71 %
	BlackRock Global Funds	0.00 % (0)	12.39 % (7,830,451)	1.41 %	13.80 %
	BlackRock Global Funds	0.00 % (0)	12.06 % (7,623,012)	1.41 %	13.47 %
	–	0.00 % (0)	3.06 % (1,933,807)	0.00 %	3.06 %
	–	0.00 % (0)	3.08 % (1,946,968)	0.00 %	3.08 %
	–	0.00 % (0)	2.937 % (1,855,857)	0.086 %	3.023 %

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the LEG Immobilien AG, Dusseldorf, 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 2016. 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, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Dusseldorf, 7 March 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

THOMAS KIEPER
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."

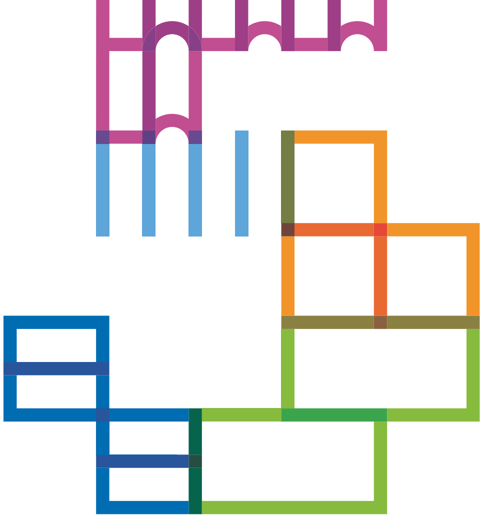
Dusseldorf, 7 March 2017

LEG Immobilien AG, Dusseldorf

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

Chapter



Further information

TABLES AND FIGURES

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Figure overview

To the shareholders

Management Report

GLOSSARY

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
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
EPRA	**E**uropean **P**ublic **R**eal Estate **A**ssociation
EPRA vacancy rate	**Vacancy rate** as defined by **EPRA** Expressed as a percentage being the estimated market rental value of vacant space divided by the estimated market rental value of the whole portfolio.
EPRA Earnings per Share	Net profit or loss for the period attributable to parent shareholders, adjusted for non-cash remeasurement effects of investment properties and derivatives, acquisition costs and aperiodic financing costs and income taxes, that are not classified as current income taxes.
EPRA-NAV	**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, derivatives or subsidised loans.
EPRA-NNNAV	**Triple N**et **A**sset **V**alue as defined by **EPRA** EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.
EPRA-Net Initial Yield	**Net initial yield** as defined by **EPRA** Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.
EPRA cost ratio	The **cost ratio** is an indicator of the company's operating performance. Administrative and operating expenses are divided by gross rental income, adjusted for leasehold land interests and – unless marked otherwise – directly attributable vacancy costs.
LTV	**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.
CAPEX	**Cap**ital **Ex**penditure Capitalised cost of modernisation and maintenance work
Project costs	Project costs include expenses for projects that are largely non-recurring with a complex structure whose goals are to be met within the budget and time provided

T152 – EPRA net initial yield

€ million	31.12.2016	*31.12.2015*
Investment properties	7,950.9	6,101.6
Assets held for sale	57.0	6.7
Market value of residential property portfolio (net)	**8,007.9**	**6,108.3**
Estimated incidental costs	789.2	601.5
Market value of residential property portfolio (gross)	**8,797.0**	**6,709.8**
Annualised cash flow from rental income (gross)	**500.3**	**428.1**
Non recoverable operating costs	–79.1	–61.4
Annualised cash flow from rental income (net)	**421.2**	**366.7**
Topped-up annualised cash flow from rental income (net)	**424.3**	**369.7**
EPRA NET INITIAL YIELD IN %	**4.8**	**5.5**
TOPPED-UP EPRA NET INITIAL YIELD IN %	**4.8**	**5.5**

T153 – EPRA cost ratio

€ million	31.12.2016	*31.12.2015*
Adjusted EBITDA	–355.8	–293.7
Rental income	511.7	436.1
Maintenance	–72.0	–54.4
Management costs	**83.9**	**88.0**
Maintenance	72.0	54.4
Leasehold interests	–4.3	–3.9
EPRA costs (including directly attributable vacancy costs)	**151.6**	**138.5**
Directly attributable vacancy costs	–6.3	–6.0
EPRA costs (excluding directly attributable vacancy costs)	**145.3**	**132.5**
Rental income	511.7	436.1
Leasehold interests	–4.3	–3.9
Rental income (gross)	**507.4**	**432.2**
EPRA COST RATIO (INCLUDING DIRECTLY ATTRIBUTABLE VACANCY COSTS) IN %	**29.9**	**32.0**
EPRA COST RATIO (EXCLUDING DIRECTLY ATTRIBUTABLE VACANCY COSTS) IN %	**28.6**	**30.7**
EPRA COST RATIO ADJUSTED BY MAINTENANCE (INCLUDING DIRECTLY ATTRIBUTABLE VACANCY COSTS) IN %	**15.7**	**19.5**
EPRA COST RATIO ADJUSTED BY MAINTENANCE (EXCLUDING DIRECTLY ATTRIBUTABLE VACANCY COSTS) IN %	**14.4**	**18.1**

THE MANAGEMENT BOARD

The members of the Management Board are as follows:

THOMAS HEGEL
Chief Executive Officer (CEO)
Corporate Development, Acquisitions,
Corporate Communications, Legal,
Internal Audit and Compliance, Human Resources,
IT, Executive and Supervisory Board Office,
Central Services

ECKHARD SCHULTZ
Chief Financial Officer (CFO)
Finance and Treasury, Corporate Finance,
Investor Relations, Controlling & Risk Management,
Accounting, Tax, 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,
Energy Services & Repairs Management

FINANCIAL CALENDAR 2017

LEG financial calendar 2017

Publication of the 2016 Annual Report	**9 March**
Publication of the Quarterly Statement as of 31 March 2017	**10 May**
Annual General Meeting, Dusseldorf	**17 May**
Publication of the Quarterly Report as of 30 June 2017	**10 August**
Publication of the Quarterly Statement as of 30 September 2017	**10 November**

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