Liveable housing. Simply good.

ANNUAL REPORT 2019

NRW
WOHNT
LEG

Brief Portrait

With around 136,000 rental properties, approx. 365,000 tenants and around 1,400 employees (as at 1 January 2020), LEG is a leading listed housing company in Germany, based in Dusseldorf. The company is listed in the MDAX and generated rental and lease income of around EUR 809 million in the 2019 financial year.

As the biggest landlord in Germany's most populous state, North Rhine-Westphalia, LEG uses a focused management concept, in-depth knowledge of local markets and its comprehensive presence to serve its tenants. It uses its property portfolio to meet the rising demand for affordable housing. A consistently value-driven business model with a focus on growth and customers combines the interests of shareholders and tenants. Customer satisfaction is especially important to LEG. It is therefore constantly striving to further improve the quality of its service through target group orientation, social and neighbourhood management and personal service.

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Key Figures 2019

T1

		2019	2018	+/– %/bp
Results of operations				
Rental income	€ million	586.1	560.2	4.6
Net rental and lease income	€ million	435.0	418.6	3.9
EBITDA	€ million	1,310.1	1,188.4	10.2
EBITDA adjusted	€ million	426.5	405.2	5.3
EBT	€ million	1,051.3	1,096.4	– 4.1
Net profit or loss for the period	€ million	821.1	847.1	– 3.1
FFO I	€ million	341.3	318.6	7.1
FFO I per share	€	5.27	5.04	4.6
FFO II	€ million	327.9	318.8	2.9
FFO II per share	€	5.06	5.04	0.4
AFFO	€ million	134.6	139.7	– 3.7
AFFO per share	€	2.08	2.21	– 5.9
Dividend per share	€	3.60	3.53	2.0
Portfolio		**31.12.2019**	31.12.2018	+/– %/bp
Number residential units		134,031	133,969	0.0
In-place rent	€/sqm	5.82	5.63	3.4
In-place rent (l-f-l)	€/sqm	5.82	5.66	2.9
EPRA vacancy rate	%	3.1	3.5	– 40 bp
EPRA vacancy rate (l-f-l)	%	3.0	3.1	– 10 bp
Statement of financial position		**31.12.2019**	31.12.2018	+/– %/bp
Investment property	€ million	12,031.1	10,709.0	12.3
Cash and cash equivalents	€ million	451.2	233.6	93.2
Equity	€ million	5,933.9	4,783.9	24.0
Total financing liabilities	€ million	5,053.9	4,598.1	9.5
Current financing liabilities	€ million	197.1	484.8	– 59.3
LTV	%	37.7	40.7	– 300 bp
Equity ratio	%	45.9	42.7	+320 bp
Adj. EPRA NAV, diluted	€ million	7,273.0	6,613.7	10.0
EPRA NAV per share, diluted	€	105.39	96.10	9.7
Pro forma NAV after simulated executed conversion	€ million	7,273.0	6,428.0	13.1
Pro forma NAV after simulated executed conversion per share	€	105.39	93.40	12.8

bp = basis points

EUR **341.3** million

In 2019, LEG could increase FFO I, the most important earnings indicator for the property industry by 7.1 % to EUR 341.3 million.

37.7 %

Net debt in relation to property assets (LTV) was 37.7 % at fiscal year-end reflecting our low-risk profile.

5,750

In 2019, we acquired 5,750 residential units overall, mostly with transfer at the turn of the year 2019/2020. As at 1 January 2020, the number of our units therefore increased to around 136,000.

3.60 €

The Management Board and the Supervisory Board intend to propose a dividend of EUR 3.60 per share at the Annual General Meeting for the 2019 financial year.

2019 in brief

JANUARY

Customer orientation as leitmotiv
With the strapline, “Liveable housing. Simply good.”, LEG is placing the focus this financial year on measures aligned to the customer. For example, from this year new tenants can sign digital leases conveniently and securely. For customers who want personal contact, during the year LEG is again setting up tenant offices in several cities, including Gelsenkirchen, Remscheid and Siegen. In addition, to ensure rapid processing LEG TechnikService staff numbers are being increased from 360 to 400 craftspersons.

FEBRUARY

LEG – one of Germany’s best employers
For the sixth time in a row, LEG is named one of “Germany’s 1,000 best employers” in the services industry. Commissioned by the news magazine Focus, the market research institute Statista analysed more than 143,500 employer assessments.

MARCH

Prize awarded for training
As a major German housing company, LEG offers comprehensive training in many different areas, and its trainees find themselves in an excellent situation. This has also been confirmed by the “Germany’s best training workplaces” accolade, which LEG was awarded by Focus/Focus Money for the second time in a row. Twelve trainees once again began their professional careers at LEG in 2019.

APRIL

LEG builds 400 new apartments
Launch of new LEG construction project in Cologne-Höhenhaus (investment: more than EUR 80 million). The city of Cologne moves forward with the development plan project. In place of around 200 existing apartments, more than 400 new apartments will be built in the neighbourhood. LEG sets up an office in the neighbourhood as a point of contact to advise tenants and keep them informed.

MAY

LEG’s compliance management system certified
The Institute for Corporate Governance in the German Real Estate Industry (ICG) certifies LEG’s compliance management system. Good corporate governance is a key pillar of LEG’s business, and is essential for acceptance by investors, customers and employees.

Next generation in Management Board
Thomas Hegel (63) steps down as the CEO of LEG Immobilien AG at the Annual General Meeting on 29 May 2019. Lars von Lackum (44), who came to LEG in January as Chief Digital Officer (CDO) becomes the CEO. Dr Volker Wiegel (42) begins his term in office as COO. Having served as a General Counsel at LEG since 2013, he built up the Legal, Structure and Organisation department and played a key role in the ongoing development of operating processes. In September Eckhard Schultz (54) steps down as LEG Immobilien AG’s Chief Financial Officer.

JUNE

Innovation prize
LEG’s accounting robot wins the ZIA innovation prize. The digital innovation automatically matches receivables and incoming payments – and it does so 24/7 with an error rate of close to zero.

LEG awarded berufundfamilie audit certificate
LEG receives the berufundfamilie (career and family) audit certificate for the first time for its strategic HR policy mindful of family and life phases.

JULY

LEG power – simply affordable
Launch of cooperation with lekker Energie. As part of the “LEG-Strom powered by lekker Energie” pilot project, LEG actively offers new tenants green electricity at favourable terms. The pilot meets with strong interest and is expanded to include a gas deal in November.

LEG joins state homelessness initiative
LEG becomes a partner in the “Home at Last!” state initiative that makes it easier for homeless people to move back into an apartment of their own.
www.mags.nrw/hilfe-bei-wohnungslosigkeit

AUGUST

Telephone callback service for tenants expands
In the past, customers have been offered a callback service if all lines were busy at the central customer service desk. To improve customer convenience, LEG further expands its callback management on its web site. **Callback management**

SEPTEMBER

Purchase agreement signed for portfolio of around 2,000 apartments
LEG contractually agrees to acquire a portfolio of around 2,000 apartments from VIVAWEST. Ownership is to transfer on 1 January 2020. The apartments are located in core markets such as the greater Aachen area, the Lower Rhine and the Ruhr area. Almost half of the units are subsidised housing.

Wirtschaftswoche award received
LEG enjoys the highest level of customer confidence. This is the result of a survey conducted by consulting firm ServiceValue for the economic magazine Wirtschaftswoche.

OCTOBER

Continuation of new construction initiative with 117 apartments in Dortmund-Mengede
LEG buys 117 completed apartments from Lavida Wohnen GmbH at Grünen Bogen, Dortmund-Mengede. Most of the portfolio is offered with publicly subsidised rent.

NOVEMBER

LEG acquires portfolio of around 2,200 apartments in Bremen and Lower Saxony
Around 2,200 residential and 30 commercial units in Bremen, Oldenburg, Delmenhorst and Cuxhaven are transferred from Hanover’s Baum Group to LEG as at year-end 2019, as per the contract signed on 15 November. This transaction highlights NRW’s leading lessor’s ambition for growth also outside its core NRW market.

Bond issue successfully implemented
On the basis of its strong Baa1 investment grade rating (Moody’s), in November 2019 LEG successfully implemented its biggest bond issue to date of EUR 800 million. The transaction again confirms the positive perception of LEG on the capital market.

Participation in the dena project “Energiesprong Deutschland”
In cooperation with Germany housing companies, dena, the German Energy Agency, is testing a serial refurbishment concept from the Netherlands, the “Energiesprong” approach. LEG is involved as one of the largest partners. The objective is to modernise the energy situation in portfolio properties to the net-zero standard in a way which does not impact overall rent. The project is supported by the EU, the German Federal Ministry for Economics Affairs and Energy and the GdW - the German Association of German Housing Companies.

DECEMBER

Newly formed LEG Customer Advisory Council convenes
To further optimise communication between tenants and LEG, a Customer Advisory Council spanning the whole of NRW was created to proactively involve tenant representatives in decision-making processes on neighbourhood development and services. Tenants from all branch neighbourhoods are represented. Quarterly meetings at rotating locations were agreed at the kick-off meeting.

We establish a new foundation – “Your Home Helps”
LEG makes a clear commitment to its social responsibility. As a key element of its future social commitment, the company is setting up a new foundation “Your Home Helps” with assets of EUR 16 million. Partnering with various charities and in cooperation with LEG, the foundation plans to help tenants such as children from challenging backgrounds, day-to-day living assistance for seniors, support services for families and the arrangement of advice services. The foundation also plans to develop meeting places and children’s and family centres.

LEG resolves to found its own energy company
As of 1 January 2020, LEG will discontinue its joint venture with innogy and continue EnergieServicePlus (ESP) as a 100 % LEG company. The aim is to further develop ESP with a stronger customer orientation.

2
TO THE SHAREHOLDERS

Letter from the Management Board

„CUSTOMER-ORIENTATION AND STRONG GROWTH – THAT'S OUR WAY TO FURTHER DEVELOP LEG."

1 Lars von Lackum (CEO)
2 Dr Volker Wiegel (COO)

Letter from the Management Board

Dear Shareholders, friends of the company,

2019 was a year of change. The economic environment in general and the situation for the housing industry specifically has shifted crucially. Climate change means major challenges to society as a whole and naturally to LEG as well. At the same time, we are witnessing an intensive social debate on the affordability of housing. Adapting to changes in customer requirements remains an ongoing task. The housing industry therefore finds itself being pulled in different directions, caught between customer satisfaction, profitability and sustainability. Your LEG has performed very well in this challenging environment, and is able to present you with a successful business result once again.

There were changes not just in politics, society and among our customers, but also within LEG's management. We are delighted to be speaking to you today for the first time as the CEO and COO of LEG Immobilien AG. From 1 July 2020, Susanne Schröter-Crossan (> **see press release**) will also be joining the Management Board team as our CFO.

With this new line-up, we still stand for a stable, long-term and sustainable business model. One that combines profitability and financial strength with high dependability as a partner to our customers and other stakeholders. At the same time, we are constantly adapting to new circumstances. For instance, in the past year we made several changes to further increase our internal speed and response capability, and to give our company an even more efficient, flexible and sustainable footing. By this letter, we would like to tell you what this means.

Long-term growth trajectory confirmed

It must first be said that, eleven years after the privatisation of the former state development company, LEG has again continued its growth. The main drivers were structural organic rental growth, a further improvement in operating efficiency and positive effects from acquisitions. The equity created by the early conversion of the 2014/2021 convertible bond created the financial flexibility for further growth, which has already led to a series of value-adding acquisitions in quick succession. The key performance indicators developed positively in the reporting year and financial targets were achieved:

FFO I (funds from operations), the key earnings figure for our industry, rose by 7.1 % to EUR 341.3 million, and thus was in the middle of our forecast range. Average in-place rent rose by 2.9 % on a like-for-like basis, and by 3.6 % for the free-financed portfolio. At the same time, the like-for-like vacancy rate was still low at 3.0 % at the end of 2019, and therefore slightly lower than the figure for the previous year. After 72.8 % in the 2019 financial year, we expect our EBITDA margin to continue to rise to around 74 % in 2020. We took advantage of the consistently low interest rates to further optimise our financing in the reporting year. Thus, we cut our average interest costs by a further 9.5 % or 15 basis points year-on-year to 1.43 %, while at the same time the average term of our liabilities increased to 8.1 years.

„WITH GOOD HOUSING AT FAIR PRICES, WE OFFER PRECISELY THE PRODUCT THAT MANY PEOPLE IN GERMANY NEED.“

LARS VON LACKUM (CEO)

Net gearing in relation to property assets (LTV) was 37.7 % as at the end of the reporting period, highlighting LEG's defensive risk profile. Moreover, the value of your company has appreciated significantly once again: NAV per share rose by 12.8 % as against the previous year to EUR 105.39.

The Management Board and the Supervisory Board intend to propose a dividend of EUR 3.60 per share at the Annual General Meeting for the 2019 financial year. The dividend is higher than in the previous year despite the 9.2 % increase in the number of shares: The dividend proposal translates into a distribution of EUR 248.4 million, 11.4 % more than 2019's EUR 223.1 million. As a result, our long-term distribution ratio of 70 % of FFO I will increase to 72.8 % on a one-time basis.

Stakeholder value an essential component of success

Naturally, one of our most important benchmarks is you, our shareholders, and your financial goals. Taking into account the 15.8 % increase in the share price and a dividend yield of 3.9 %, your investment in LEG generated an attractive return of 19.7 % for 2019.

A strong customer focus is another integral part of the fundamental orientation of your company. In the 2019 financial year, we created new services and digital applications that mean value added for our customers, our employees and our company. Digital leases, our accounting robot in receivables management and an attractive green electricity deal for our customers are examples of how we have used smart ideas to cut back on bureaucracy and improve and expand our business model.

We also want to move with the times as concerns social challenges. We are working hard to create new living space and to do our part for climate protection. Given the very intensive discussions surrounding affordable housing in Germany, we have decided to reduce rental growth for 2020 to a target of 2.8 %. Self-evidently, the level of affordable housing available will only rise if we do more in the field of new construction. From 2023, we therefore intend to build or purchase 500 new apartments every year. As part of our modernisation drive, a record figure of EUR 207 million was invested in our buildings in 2019, much of which on increasing energy efficiency. But building services matter to us as well. In the past year alone, about 13,500 tenants received a new heating system, and we will also invest around EUR 90 million in roughly 930 modern lifts by 2026. Since the company went public, it has now invested EUR 725 million in the modernisation of its properties.

„IN 2019 WE INVESTED THE RECORD FIGURE OF EUR 295 MILLION IN OUR NEIGHBOURHOODS – WITH THE FOCUS ON CLIMATE PROTECTION."

DR VOLKER WIEGEL (COO)

Our corporate responsibility also includes taking care of our employees' well-being. As an employer, LEG offers a fair and attractive remuneration model. We offer attractive working conditions with flexible working hours and a good work/life balance – and we guarantee a wide range of training and continuing professional development opportunities. The "Germany's best training workplaces" accolade awarded by Focus/Focus Money and the "berufundfamilie" (career and family) certificate for our HR policy are proof positive that we are striking the right balance here as well.

Focus on fair housing in Germany and NRW specifically

Our vision for LEG is defined by the balance between the expectations and interests of all stakeholders. The slogan for this year's annual report has been quite deliberately chosen: Liveable Housing. Simply good. This means that we offer people with middle and lower incomes a good place to live at a fair price and that we care about the development of our neighbourhoods, now and in the future.

In 2019 we honed our profile as the property company in Germany that focuses on the residential segment for broad swathes of the population. Building on our efficient management platform in NRW, we increasingly also wish to expand our market position in nearby federal states. International acquisitions are not on the table for LEG at this time.

In line with this, we have formulated three pillars for our strategy:
The optimisation of our core business is an ongoing strategic task to be able to offer our customers attractive, affordable housing and to guarantee our investors an appropriate return on their capital. It is therefore important to run our business as cost-consciously and efficiently as possible to leverage rental potential with the necessary judgement, in order to satisfy customer expectations as regards value for money. We are delighted by the fact that a large majority of our customers appreciate our professional services and our commitment to the ongoing development of our neighbourhoods. This has been confirmed by various surveys. For example, LEG was once again awarded Wirtschaftswoche magazine's "Highest customer confidence" seal of approval. In order to score points with high customer satisfaction moving ahead as well, we are working hard to further improve accessibility and service quality. For example, since 2019, our central customer service has been offering tenants a call-back service or the chance to arrange a scheduled call on it website. And we are extending the opening hours in tenant offices where personal contact is important to customers.

The second pillar of our strategy is the extension of the value chain: The customer base of currently around 365,000 tenants is also the foundation for expanding innovative services that create value added for both our customers and our shareholders. These currently include additional deals such as cable TV, power or repair services. Moreover, we are investing to an appropriate extent in new construction and project development to help ease the urgent need for additional affordable living space in high-demand metropolitan areas.

The third pillar of our strategy house is portfolio enhancement: We have acquired 5,700 residential units in NRW, Rhineland-Palatinate, Lower Saxony and Bremen in the reporting year. Our goal for 2020 is to acquire around 7,000 units. We are also increasingly looking beyond NRW's borders and acquiring smaller-scale portfolios.

Competitive edge thanks to SME structures

The balance between continuity and change demands a keen sensitivity to social and economic processes. In competition, our strength partly lies in our regional roots and our SME structures, which we have bolstered significantly once again in 2019 by cutting interfaces and merging departments. This keeps us agile, and preserves our direct contact with customers. However, we are also big enough to systematically generate economies of scale, including in the fields of neighbourhood administration, management and finance.

The edge that this gives us has to be expanded and harnessed. The progress of our society and our industry is built on the initiative and expertise of individuals. Moving ahead, we aim to make greater use of the potential of individual ideas and approaches. We will gradually give our employees greater responsibility in their own areas and promote business thinking and action. We believe that it is often better to keep direct decision-making power at the branches, i.e. at grass roots level, rather than at our head office in Dusseldorf – though naturally without head office losing its ability to steer company-wide processes as necessary.

On average, our tenants remain with us for twelve years. Customer proximity is very important to us to ensure that this stays this way in future as well. This is just as true at the level of office staff as it is for us in the Management Board – we all have direct customer contact. This way we can see the potential for improvement and actively develop ways to offer customers exactly what they want.

Creating and preserving value

Against the backdrop of the year's acquisitions and refinancing activities, in November 2019 we raised our forecast for FFO I in 2020 to a range between EUR 370 and EUR 380 million (previously: EUR 356 to EUR 364 million). We stand by this. Good living in the interests of all stakeholders demands a concerted effort by the whole of society in a broad consensus between politics, civil society and the economy. Our company is therefore always open to a dialogue with all stakeholders. We will continue the constructive discourse in the interests of a stable framework that functions very well in our core state of NRW, and in a large number of cities and local communities. LEG rightly has the image of being part of the solution – which reinforces our belief in our philosophy of partnership amongst all stakeholders.

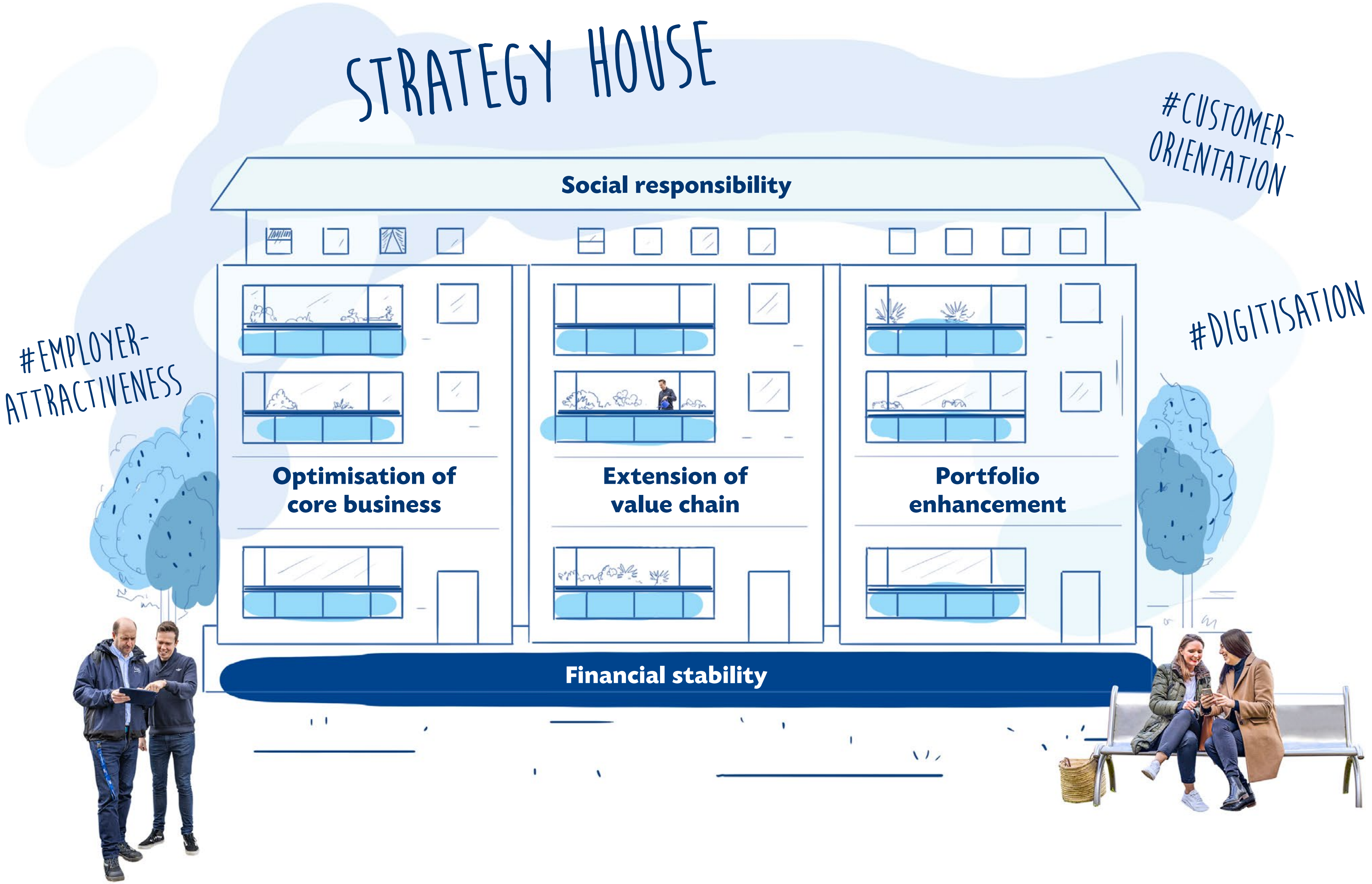
And so we are optimistic for the future as well. LEG is well positioned in many respects: Our business success shows that the affordable housing we offer and where we offer it are precisely the product that the people of our state need. We use regional expertise to create bespoke value-adding services that benefit our tenants, and that make efficiency-enhancing innovations a reality. And we practice sustainable social responsibility – whether with our new "Your Home Helps" foundation or by investing in eco-friendly housing.

Finally, I would like to thank the entire staff of LEG, our tenants, all our partners and especially all our shareholders for the trust they have placed in us. We hope that you will remain with us on our path to the future.

LARS VON LACKUM
Chief Executive Officer (CEO)

DR VOLKER WIEGEL
Chief Operating Officer (COO)

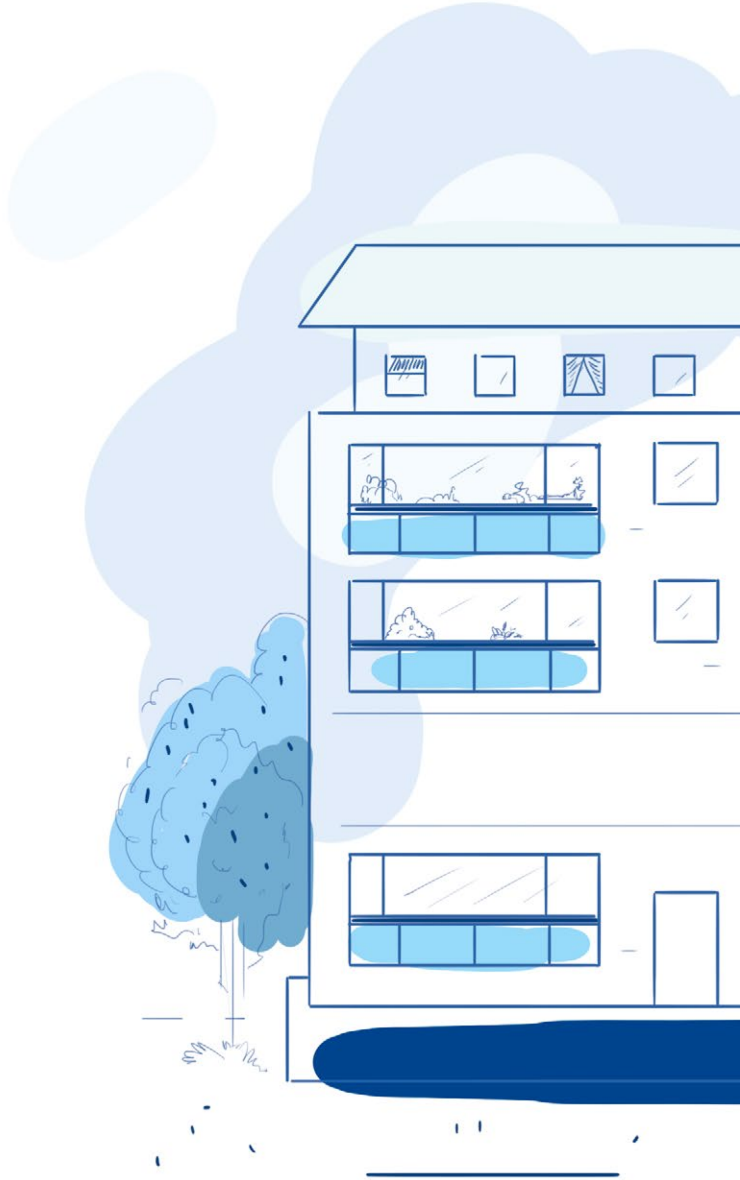
Liveable housing. Simply good.



Our Strategy 2025

We are creating a home worth living in for people who simply want to live well. This is our vision for LEG and how we want to be seen by our stakeholders – our customers, investors, employees and society at large.

In order to achieve this goal, LEG reviewed its strategy in 2019 as part of a structured process. The result is the Strategy House. It is built on three key pillars:



The management of our existing apartments remains our core business. The **optimisation of the core business** is an ongoing strategic task to be able to offer our customers attractive, affordable housing and to guarantee our investors an appropriate return on their capital. It is therefore important to meet current customer expectations as regards value for money, to leverage rental potential with the necessary judgement and to shape our business as cost-consciously and efficiently as possible.

In addition, we want to offer our customers more than just rental services, which is why we are **extending our value chain** to include services and targeted additional offerings such as cable TV, power or repair services. These provide our customers with genuine value added, open up new customer groups for our partners and mean additional sources of income for us. Moreover, for around two years we have again been investing to an appropriate extent in new construction and project development to help ease the urgent need for additional living space in high-demand metropolitan areas.

The third pillar of our strategy house is **portfolio enhancement**: We want to continue growing in NRW and selectively build up portfolios beyond its borders. We are increasingly looking at smaller portfolios as well. Portfolio enhancement also includes to dispose of properties that are not – or no longer – right for LEG.

Our three strategic pillars are built on a solid foundation of **financial stability**. To us, this means a conservative financing profile appropriate to our business model, that enables both investment in our properties and the further growth of our business. Given its rising relevance and the intense social debate surrounding "housing", in keeping with how we see ourselves, public perception of **LEG as a socially and environmentally responsible company** is also especially important to us. In light of its key significance, it therefore forms the roof of the strategy house. Customer and employee orientation, as well as digitisation, play a key role in achieving all strategic goals – they are thus a regular feature of our strategy building and for this reason will appear repeatedly in the following pages.

Social Responsibility

We offer people a home worth living in. LEG therefore consciously takes social responsibility above and beyond its purely business interests. We are happy to do so, and we perceived to do so.

Multi-facetted social commitment

Sustainability and social commitment have always been key aspects of how we see ourselves. They are also increasingly becoming a concern for society at large and investors, causing their significance to grow rapidly. Climate protection is a focus of LEG's modernisation programme, the main goal of which is the energetic refurbishment of housing portfolios. With an average of 150 measures carried out in our neighbourhoods each year, we are a stabilising factor and promote the spirit of good neighbours. We provide a home to a broad range of people, help them in emergency situations and assist communities in accommodating the homeless or refugees.

Strategy implementation in 2019

The flagship of our social commitment in 2019 was the creation of a new foundation, "Your Home Helps", with capital of EUR 16 million. Problems will be taken on by sustained, long-term social work, in particular through cooperation with professional charity partners. Top priorities include helping children from challenging backgrounds, financial advice, day-to-day living assistance for seniors, support services for families and advice and support for addiction and other diseases. LEG tenants can still apply for integrative tenant parties and selective financial assistance at short notice, for instance in the event of a no-fault claim, at the established LEG NRW Tenant Foundation.

Another element of our holistic approach to society is our involvement in the "Home at Last!" state initiative, which aims to combat and prevent homelessness in North Rhine-Westphalia before it can develop.

In addition to having a liveable home, a key feel-good factor for our tenants is the ability to remain vital and mobile where they live. To keep this option open for senior and residents with disabilities as well, we installed free walking frame garages and charging stations for electric wheelchairs at various locations in 2019.

We are committed to climate protection. The modernisation measures initiated in 2019 alone allow us to save 5,400 tonnes of CO_2 per year. At the same time, we always keep a close eye on what people with low incomes can afford. In hardship cases, we waive the option of passing costs on to them. In summer 2019, we decided to take part in the North Rhine-Westphalian state government's programme for subsidised energy modernisation with subsequent introduction of rent controls under the Directive Promoting the Modernisation of Residential Space in North Rhine-Westphalia (RL-MOD). We are also actively involved in the development of low-cost, serial energy refurbishment procedures.

The ongoing dialogue with all stakeholders allows us to keep our social commitment focused as it develops, to create trust and to form partnerships. **Sustainability Report**

„OUR NEW "YOUR HOME HELPS!" FOUNDATION OPENS UP ENTIRELY NEW DIMENSIONS FOR SUSTAINABLE SOCIAL CARE FOR THE DISADVANTAGED IN OUR NEIGHBOURHOODS."

DR DANIEL SPIECKER, CHAIRMAN OF THE FOUNDATION

Optimisation of Core Business

We have been successfully operating our core business, the management of currently around 136,000 apartments, for many years. We are constantly working to meet both rising customer expectations as regards reliability and expertise, and high expectations for efficiency and profitability to the best of our ability.

Clear positioning as a pure-play housing company

In total, we provide attractive and affordable housing for approximately 365,000 people. Furthermore, we offer commercial properties where they are a complementary component of our neighbourhoods. We leverage potential for rent increases in an agile and flexible manner while retaining a sense of proportion. As the market leader in NRW, our command of business in popular metropolitan areas is equal to our development of B and C locations. Our expert employees are what make the difference. We reaffirmed our clear positioning as a residential company in our 2019 strategy process. Satisfied tenants form the backbone of our business model, and are therefore vital to our economic success. Low tenant turnover, for instance, means lower costs. For this reason, customer proximity and accessibility rank among our top priorities. The continuous improvement of internal processes and structures contributes to customer satisfaction and efficiency. We are actively leveraging the advantages afforded by digitisation.

Strategy implementation in 2019

Customer proximity gives LEG a competitive edge in order to further optimise its range of housing and additional services. In addition to writing letters, sending e-mails and calling us on the telephone, our customers are increasingly also using the LEG tenant app and portal. To further optimise customer access, since last year our tenants have also been able to request when they will be called back by our central customer service either by telephone or online. A ticket system ensures that every customer concern is documented. This way, our property experts are always able to provide the desired information. In 2019, we also began setting up tenant offices again in some cities in order to reach customers who particularly value personal contact.

Parallel to this, the Management Board is also keen to speak directly with tenants, for instance at LEG’s customer talks, established in 2019, that have so far discussed issues including maintenance and new construction work. Furthermore, at the end of 2019, LEG established a Customer Advisory Council which is proactively involved in decision-making processes for neighbourhood development and in designing services.

> „BEING CLOSE TO THE CUSTOMER MEANS KEEPING AN EYE ON CUSTOMERS’ NEEDS. LEG’S LIFT INITIATIVE IS AN EXCELLENT EXAMPLE.“
>
> ULRIKE JANSSEN,
> TECHNICAL MANAGING DIRECTOR AT
> LEG WOHNEN NRW GMBH

As part of our advances in digitisation, since October 2019 new tenants have had the option of signing convenient and secure digital leases. **www.leg-wohnen.de** This saves our customers time and spares us the paperwork. Another example is our accounting robot in receivables management, which has been awarded the ZIA Innovation Prise. It matches receivables and incoming payments – 24/7 with an error rate of close to zero. This gives our qualified employees more time for complex tenant issues.

One particular example of investment in living comfort is our lift modernisation initiative resolved in 2019, which will cost around EUR 90 million. By 2026, more than 930 lifts will be refurbished and entrance areas will be made fully accessible. This way we are getting our housing portfolio ready for the future in line with demographic change at the same time.

Extension of the Value Chain

We are expanding our product range and supplementing our core business by offering value-added services for our customers and our new construction activities in popular residential locations. The most important principle is more comfort at affordable prices.

More than just a landlord

A home worth living in takes more than just a rental. Working with suitable partners, we are therefore actively developing services that deliver value added for all involved: Our tenants benefit from lower prices or a better product, our partners gain access to new customer groups and LEG participates in the margins on services while boosting customer loyalty.

Our new construction strategy is also about more than just rentals: From 2023, we want to offer around 500 new apartments per year in sought-after locations. LEG is thus helping to gradually increase the availability of affordable housing right where it is needed. With 250 new apartments under construction, LEG is in charge of the building itself, which means that we buy the space and get the permits, and hire experienced builders to do the work. For cost reasons, we are currently exclusively building on land we already own, but will be looking for new land in future. By buying developed new buildings, we can increase supply by a further 250 new apartments per year.

As with all other aspects of our strategic agenda, for both our value-adding services and new construction, we must naturally always demand the highest standards of efficiency and cost awareness in the interests of our customers and investors.

Strategy implementation in 2019

In a pilot project with our latest partner lekker Energie, we looked at how our customers would receive a new LEG power product. "LEG-Strom powered by lekker" offers 100 % green electricity at attractive terms, including a guaranteed price difference compared to the main utility company. The pilot was a complete success: Two thirds of our new tenants have signed up for the separate electricity contract. We therefore intend to roll out our power deal extensively through a network of distribution partners. In a follow-up pilot, we are also testing customer demand for a similar arrangement for heating gas.

For many years now, our subsidiary WohnServicePlus (WSP) has been supplying 115,000 of our residential units with cable or satellite TV at special rates in cooperation with Unitymedia. And given the fraught situation on the tradesmen market, there is a clear advantage for our tenants in using TechnikServicePlus (TSP), a joint venture with the market leader B&O that performs small repairs with around 400 of its own specialists.

„WE TAKE RESPONSIBILITY AND CREATE AFFORDABLE HOUSING FOR OUR CUSTOMERS."

WERNER WIRTZ, LEG PROJECT MANAGER FOR COLOGNE-HÖHENHAUS NEW BUILD

Our new building initiative was also ongoing in 2019: We purchased 117 turnkey apartments at Grüner Bogen in Dortmund-Mengede. 99 of these apartments are offered at subsidised rents. In Cologne-Höhenhaus, we are building around 400 modern apartments suitable for senior citizens and families, investing more than EUR 80 million. Construction is set to begin in 2021, and the first apartments are expected to be completed in 2022. Thanks to smart, sustainable planning, the new neighbourhood will be able to provide a home for around twice as many tenants as before. More than a quarter of the new apartments will be offered as social housing, in addition to a share of low-cost housing. A small, but fine, new construction project in Hilden, with 38 fully accessible, energy-efficient units celebrated its topping-out ceremony in 2019 – the first tenants are ready to move in.

Portfolio Enhancement

Active portfolio management is a fixed part of our strategy. We aim to continuously improve the quality and increase the size of our portfolio. We have resolved to further accelerate our growth and extend our radar for potential acquisitions.

Focus on value

LEG has grown steadily in recent years to currently 136,077 apartments (as at 1 January 2020). There are clear regional, structural and financial rules for acquisitions. North Rhine-Westphalia is and will remain by far the most important target region. However, as part of LEG's 2025 strategy, we are also increasingly considering purchase options that include attractive properties in nearby regions beyond NRW's borders. Our goal is to manage these using our existing platform as well. We are also looking at smaller holdings close to our established neighbourhoods. By expanding our focus in this way, we intend to step up the rate of our growth according to the market situation. The key financial data have to be right: rising operating margins, an immediate contribution to FFO and higher NAV. As for all investments, our top priority is capital discipline. We fundamentally manage and develop the properties we acquire with a view to the long term.

At the same time, we regularly streamline our portfolio, moving on from neighbourhoods that can be managed more effectively by other owners. Despite this, we intend to continue to be a net buyer, developing our portfolio through external growth.

Strategy implementation in 2019

Obviously, under such tough conditions and in times of considerably higher purchase price expectations, acquisition business is not a guaranteed success. And yet we were highly successful in such operations in 2019. In total, we have acquired around 5,750 residential units, most of which were transferred to us as at 1 January 2020. LEG can also facilitate immediate integration into its existing portfolio.

Firstly, this includes the acquisition of around 2,000 apartments from VIVAWEST on our core NRW market. These are located in the greater Aachen area and the Ruhr area, where LEG already has significant management expertise and can therefore leverage impressive synergies. We have thus further consolidated our strong position in NRW. A good example of a smaller-scale acquisition is the purchase of 87 residential units in four properties in the south of Duisburg as at 1 November 2019. Thanks to the proximity to our LEG properties, we can offer our new customers professional tenant services and continue our neighbourhood development right from the get-go.

Our acquisition activities outside NRW took a giant leap forward in 2019. We were able to systematically establish a market presence in northwest Germany with the acquisition of two attractive portfolios there: In autumn 2019, we acquired around 2,200 residential and 30 commercial units in Bremen and Lower Saxony. In August 2019, LEG had already acquired a further portfolio of 730 residential units, around half of which are located in Lower Saxony. To optimise our residential portfolio as a whole, in 2019, we successfully disposed of around 3,500 residential units at locations with greater investment and development requirements. Following this move, no further major disposals are planned in the near future.

„OUR GOAL IS TO OFFER OUR NEW TENANTS PROFESSIONAL LETTING SERVICES RIGHT FROM THE GET-GO."

JENNIFER FILTHAUS, LEG PROJECT MANAGER FOR THE INTEGRATION OF NEW RESIDENTIAL PORTFOLIOS

Financial Stability

Our financial stability is one of our company's key strengths. It is built on a solid statement of financial position and low financing costs. This enables us to invest in the development of our properties and to further expand our portfolio.

Foundation of our strategy

The key guidelines for our business operations are financial discipline and a low risk profile. Financial stability is the foundation on which our strategy is built. This is because our business model and the company's ongoing growth are ensured by our solid statement of financial position and our secure, long-term and low-interest financing structure.

The first of our key performance indicators in this context is our low gearing, as measured by the loan-to-value ratio, which was 37.7 % on 31 December 2019 (strategic LTV target: 40 % to 43 %). Our second key performance indicator is the long average term of our liabilities, which was around 8.1 years at the end of the reporting period. Thirdly, we benefit from low financing costs of just 1.43 % on average, coupled with a high interest hedging rate of 92.3 %. These values contribute to a high level of security for stable earnings and dividend growth in the medium term.

„CUSTOMERS, CAPITAL PROVIDERS AND BUSINESS PARTNERS CAN COUNT ON OUR CREDIT RATING."

HANS-PETER KNEIP, HEAD OF CORPORATE FINANCE & TREASURY

Since 2015, we have had a credit rating from the independent and external agency Moody's, which gave us a long-term rating of "Baa1" in May 2015 and has consistently confirmed this since then. This investment grade rating is a testament to the vitality and strength of our business model. It also grants us access to a wide range of financing instruments.

Strategy implementation in 2019

We further optimised our financing in 2019. Over the course of the year, we improved our financing profile in terms of average financing costs and maturities through the active management of our loan portfolio. As in previous years, we leveraged the consistently low interest rates on the financial markets with a view to the future, refinancing loan liabilities at attractive terms early on.

To boost our equity situation, we also reduced liabilities by EUR 300 million on the capital market. In this context, in September 2019 we called a convertible bond issued in spring 2014 and converted it into equity. In doing so, we sent a clear signal that we intend to continue our sustainable growth strategy. Our gearing ratio was reduced to 36.3 % as a result of the conversion of debt into equity. Taking this low LTV as a starting point, in autumn 2019 we obtained new debt capital on highly favourable terms. For longer-term borrowing, LEG has had a EUR 5 billion debt issuance programme since November 2019. As part of this programme, we very successfully floated our first bond on the market in the same month. At EUR 800 million, this bond is our biggest capital market transaction to date since our IPO. The low interest rate and long maturity of the bond, which was placed in two tranches with maturities of eight and 15 years, allowed us to reduce the average interest rate on our financing while at the same time increasing the average time to maturity and further improving our financing as a whole. The issue proceeds were used to finance our 2019 property acquisitions in the long term and, in particular, to refinance loans that would have matured between 2020 and 2022. > Portfolio enhancement

The Share

The German stock market, measured by the DAX benchmark index, ended 2019 with significant gains of 25.5 %. Price corrections on the stock markets and the expansive monetary policy of central banks ultimately more than made up for the negative effects of geopolitical uncertainty. On the one hand, LEG's shares benefited from the consistently negative interest rate environment, but also lost ground through the discussion of rent regulation. Overall, LEG outperformed the benchmark index for German property stocks. Including the dividend paid, investors generated a return of 19.7 % on LEG's share in 2019.

The stock markets were dominated by political issues in 2019. In particular, they were impacted by the trade war between the US and China, and by uncertainty over the outcome and nature of Brexit. This affected the many export-oriented stocks represented in the DAX especially. Indications of an economic downturn in Germany and the euro area triggered further negative stimulus and at time stoked fears of recession. However, the monetary policy of central banks, as evidenced by the Fed's three interest rate cuts, the consistently negative base rate and more extensive ECB bond-buying programmes, had a positive effect. Against this backdrop, in the middle of 2019, the return on ten-year German government bonds fell below the ECB's deposit rate for the first time reaching a record low of – 0.71 % in August.

After a weak start, the DAX hit its lowest point for the year at 10,748 points (close) on 7 January 2019. The gentle rising trend was amplified significantly in autumn, with the benchmark index remaining almost exclusively above 13,000 points from November. After a high for the year of 13,407 points on 16 December, the DAX ended 2019 at 13,249 points, having thus gained 25.5 % over the twelve-month period.

Leg Share Outperformed EPRA Index

The low interest environment remained amenable to LEG's shares. The housing sector's greater economic resilience compared to other industries proved an advantage against the backdrop of restrained economic growth. However, the sector's share prices responded very negatively to the announcement of the introduction of a rent freeze in Berlin. LEG, which has no operations in Berlin, was also hit by this. Overall, the LEG share outperformed its benchmark index in 2019 (EPRA Germany: up 10.5 %). With a closing price of EUR 105.55, the performance of LEG amounted to 15.8 %. Including the dividend paid of EUR 3.53, LEG's shareholders therefore generated a total return of 19.7 % in 2019.

T2

Share performance indicators

Ticker symbol	LEG
German Securities Code Number (WKN)	LEG111
ISIN	DE000LEG1110
Number of shares (31 December 2019)	69,009,836
Initial listing	1 February 2013
Market segment	Prime Standard
Indices	MDAX , FTSE EPRA/NAREIT, GPR Indices, Stoxx® Europe 600, S&P EUROPE 350, GPR IPCM LFFS Sustainable GRES Index
Closing price (31 December 2019)	EUR 105.55
Market capitalisation (31 December 2019)	EUR 7,284.0 million
Free float (31 December 2019)	100 %
Weighting in the MDAX (31 December 2019)	2.76 %
Weighting in the EPRA Europe (31 December 2019)	2.70 %
Average single-day trading volume (2019)	160,000 shares
Highest price (16 and 21 May 2019)	EUR 111.65
Lowest price (2 January 2019)	EUR 92.26

Successful IR activities

Active and transparent communications with capital market participants are at the heart of LEG's investor relations activities. In particular, this also includes personal dialogues with shareholders at key international financial centres. LEG had roadshows or took part in investor conferences on around 30 days in the reporting year. There were also one-on-one talks with investors at the company's head office in Dusseldorf or as part of property tours.

More than 20 analysts from renowned research companies actively tracked LEG's shares in 2019. A current overview of analysts' recommendations and price targets can be found at **www.leg-wohnen.de/en/corporation/investor-relations/share/analyst-recommendation/**. Analysts' average price target was EUR 114.50 on 29 February 2020, with predominantly positive ratings.

Capital Market Transactions

LEG exercised its option for the early repayment of its EUR 300 million 2014/2021 convertible bond in September 2019. This led to its full conversion into shares by bondholders, creating 5.8 million new shares. The total number of LEG shares thus rose by 9.2 % to 69,009,836. By opting for early conversion, LEG sent a clear signal for continuing its acquisition strategy.

On the basis of its strong Baa1 investment grade rating (Moody's), in November 2019 LEG successfully implemented its biggest bond issue to date of EUR 800 million. The bond was placed in two tranches of EUR 500 million (8-year term, 0.875 % coupon) and EUR 300 million (15-year term, 1.625 % coupon) as part of the newly established LEG debt issuance programme, and was met with strong demand from investors. The transaction again confirms the positive perception of LEG on the capital market and investors' trust in the company's sustainable growth strategy.

Investor relations work wins awards again

LEG's clear and transparent communication was again rewarded by the capital market. The IR team took second place among MDAX companies for the German Investor Relations Award 2019, presented by Extel, Wirtschaftswoche and the investor relations association DIRK.

The quality of financial reporting again earned the European Public Real Estate Association's prestigious Gold Award.

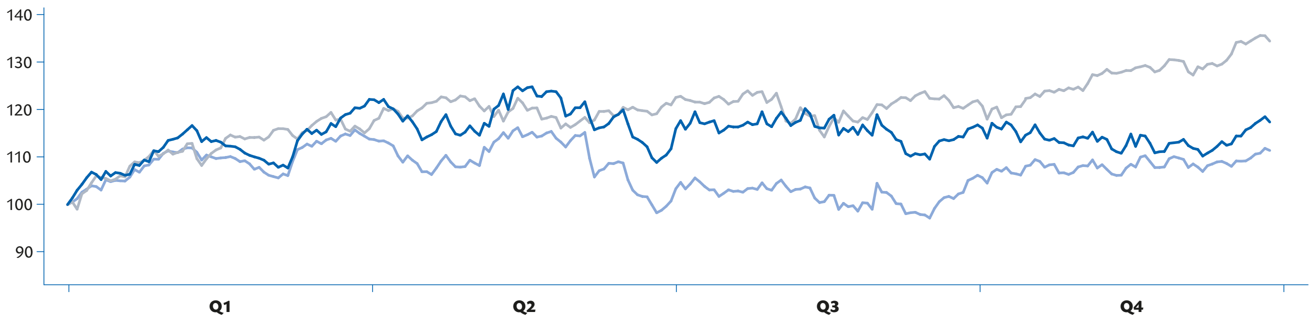
G1

Shareholder structure (in %)

MFS	**10.5**
BlackRock, Inc.	**7.5**
BNP Paribas Asset Management	**3.2**
Flossbach von Storch	**3.0**
Sonstiger Streubesitz	**75.8**

G2

Share price development



Q1	Q2	Q3	Q4
02.01.2019	02.01.2019	16.+ 21.05.2019	30.12.2019
Open	**Low**	**High**	**Close**
92.26	**92.26**	**111.65**	**105.55**

LEG — EPRA-INDEX — MDAX

Share Price 2019 indexed to 100

EPRA Key Figures

With more than 270 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 to provide high-quality information to investors.

Financial key figures

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.

Sustainability

For sustainability reporting according to EPRA sBPR please see **Sustainability Report 2019**, p. 66 et seq.

T3

EPRA key figures

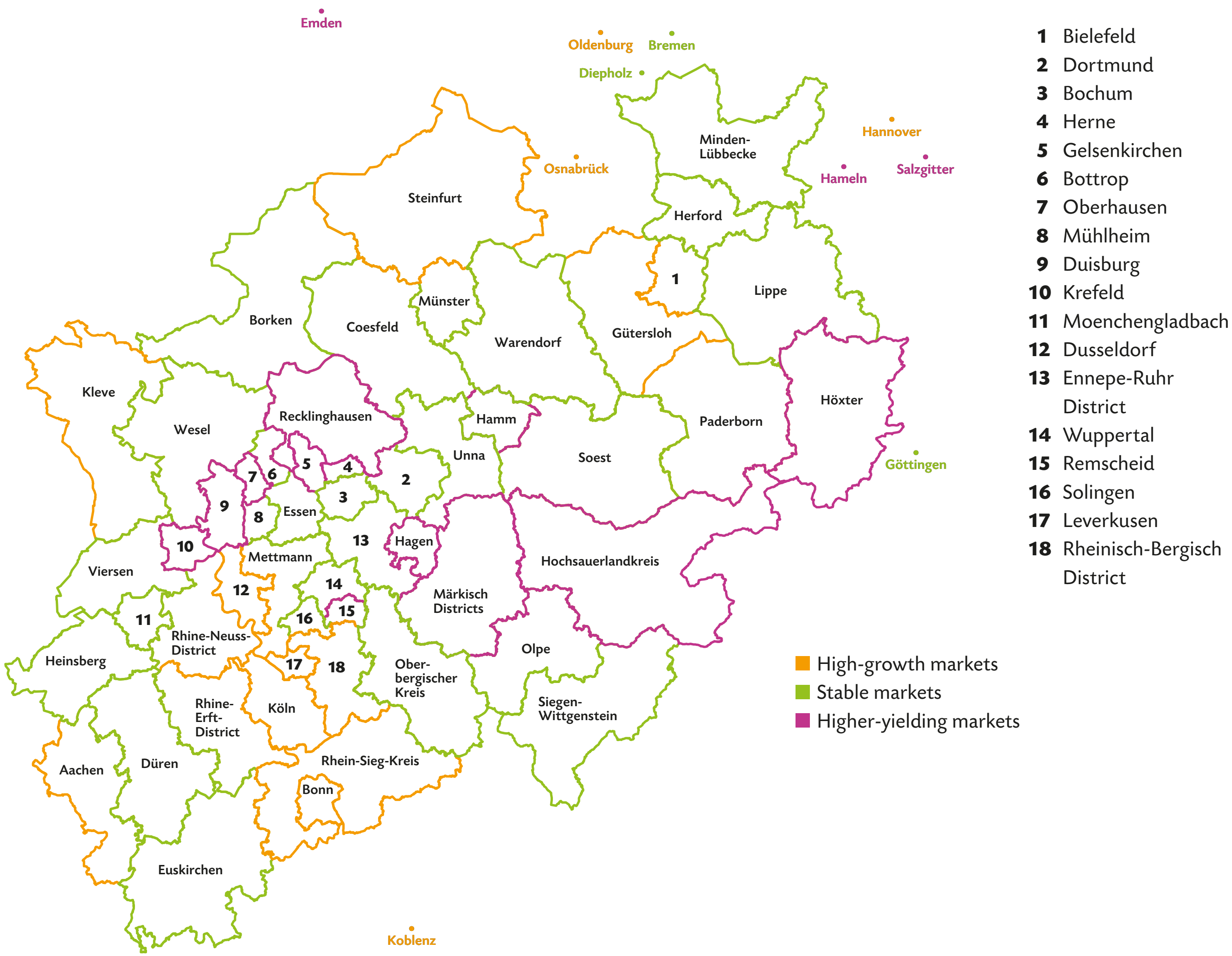
		2019	2018	Details
EPRA Vacancy (like-for-like)	%	3.0	3.1	See page 50
EPRA Capex	€ million	206.7	178.9	See page 50
EPRA Earnings per share	€	3.70	3.26	See page 133
EPRA NAV	€ million	7,356.4	6,666.4	See page 58
EPRA NAV per share	€	106.60	96.86	See page 58
Pro-forma NAV after simulated conversion	€ million	7,273.0	6,428.0	See page 58
Pro-forma NAV after simulated conversion per share	€	105.39	93.40	See page 58
EPRA NNNAV	€ million	5,732.6	5,266.4	See page 58
EPRA NNNAV per share	€	83.07	76.52	See page 58
EPRA Net Initial Yield	%	3.8	4.3	See page 52
EPRA „topped-up" Net Initial Yield	%	3.8	4.3	See page 52
EPRA Cost Ratio incl. direct vacancy costs	%	26.6	27.1	See page 51
EPRA Cost Ratio excl. direct vacancy costs	%	24.5	24.9	See page 51
EPRA Cost Ratio, adjusted by maintenance incl. direct vacancy costs	%	16.2	17.7	See page 51
EPRA Cost Ratio, adjusted by maintenance excl. direct vacancy costs	%	14.1	15.6	See page 51

Portfolio

Following the acquisitions in the 2019 financial year, LEG's portfolio is spread across around 180 locations in the four federal states of North Rhine-Westphalia, Lower Saxony, Bremen and Rhineland-Palatinate. The buildings have an average of seven residential units divided between three floors, with an average apartment size of 64 square metres. As at 31 December 2019, the portfolio consisted of 134,031 residential units, 1,272 commercial units and 34,283 garages and parking spaces.

G3

LEG in North Rhine-Westphalia by market segment



The LEG portfolio can be divided into three market clusters using a scoring system: high-growth markets, stable markets and higher-yielding markets. The data on which the market comparison is based include external rankings of the locations' demographic and economic situation (including population trends, household forecasts and purchasing power) and a comparison of key property-related figures (market rents and vacancy rates). The scoring model is updated every three years.

High-growth markets are characterised by demographically and economically strong locations with above-average rents and low vacancy rates. Stable markets are more varied than high-growth markets in terms of their demographic and socio-economic development, while their attractiveness as housing industry locations is sound to high on average. Higher-yielding markets are generally subject to a greater risk of population decline. But given a strong local presence, attractive micro-locations and good market penetration, these geographical submarkets will still offer opportunities for attractive yields.

Operational development

In-place rent on a like-for-like basis came to EUR 5.82 per square metre as at 31 December 2019. Compared to the same date in the previous year, this corresponded to an increase of 2.9 % (previous year: EUR 5.66 per square metre).

In the free-financed segment, which accounts for around 75 % of LEG's portfolio, in-place rent rose by 3.6 % to EUR 6.21 per square metre (previous year: EUR 5.99 per square metre). All market segments contributed to this trend: The high-growth markets recorded a significant increase of 4.2 % to EUR 7.26 per square metre (on a like-for-like basis). In the stable markets, rents increased by an average of 3.9 % to EUR 5.82 per square metre (on a like-for-like basis). In the higher-yielding markets an increase of 2.5 % to EUR 5.63 per square metre (on a like-for-like basis) was achieved.

There was no cost rent adjustment in 2019. Thus, the average rent for rent-restricted apartments increased only marginally by 0.5 % to EUR 4.79 per square metre as at 31 December 2019 (on a like-for-like basis).

The EPRA vacancy rate on a like-for-like basis stood at 3.0 % at the end of the year, slightly below the previous year's level (3.1 %). With an occupancy rate of 98.4 % (on a like-for-like basis), the LEG portfolio in the high-growth markets was nearly fully let as at the end of 2019. The occupancy rate in the stable markets was 97.2 % (on a like-for-like basis), while in the higher-yielding markets it stood at 94.8 % (on a like-for-like basis). The fluctuation rate remained low at 10.2 % (on a like-for-like basis; previous year: 10.4 %).

Value development

> Table T6 shows the distribution of assets by market segment. The rental yield on the portfolio based on in-place rents is 5.1 % (rent multiplier: 19.8). The valuation of the residential portfolio corresponds to an EPRA net initial yield of 3.8 %.

T4

Portfolio segments – top 3 locations

	31 December 2019					31 December 2018						
	Number of LEG apartments	Share of LEG-portfolio	Living space	In-place rent	EPRA vacancy rate	Number of LEG apartments	Share of LEG-portfolio	Living space	In-place rent	EPRA vacancy rate	Change in-place rent %	Change (basis points) vacancy rate
		in %	in sqm	€/sqm	in %		in %	in sqm	€/sqm	in %	like-for-like	like-for-like
High-growth markets	**40,843**	**30.5**	**2,709,543**	**6.61**	**1.7**	**39,657**	**29.6**	**2,638,786**	**6.41**	**2.0**	**3.3**	**–30**
District of Mettmann	8,483	6.3	589,815	6.75	1.9	8,492	6.3	590,392	6.42	1.4	5.1	60
Münster	6,200	4.6	412,155	6.69	0.9	6,125	4.6	406,757	6.60	0.7	1.6	10
Dusseldorf	5,350	4.0	347,933	7.90	2.8	5,307	4.0	344,476	7.67	4.5	3.4	–140
Other locations	20,810	15.5	1,359,640	6.21	1.5	19,733	14.7	1,297,160	6.02	1.9	2.9	–40
Stable markets	**52,034**	**38.8**	**3,325,019**	**5.50**	**2.9**	**51,043**	**38.1**	**3,270,527**	**5.33**	**3.1**	**3.1**	**–10**
Dortmund	13,617	10.2	889,195	5.33	2.2	13,596	10.1	889,921	5.15	2.3	3.3	–10
Moenchengladbach	6,442	4.8	408,268	5.87	1.5	6,444	4.8	408,347	5.64	1.9	4.2	–30
Essen	3,373	2.5	217,595	5.55	2.5	3,372	2.5	217,532	5.38	2.3	3.2	20
Other locations	28,602	21.3	1,809,962	5.50	3.6	27,631	20.6	1,754,727	5.34	3.9	2.6	0
Higher yielding markets	**41,154**	**30.7**	**2,498,817**	**5.36**	**5.2**	**43,269**	**32.3**	**2,660,710**	**5.20**	**5.7**	**2.1**	**30**
District of Recklinghausen	8,784	6.6	533,209	5.26	3.7	9,880	7.4	619,338	5.06	5.6	1.7	–10
Duisburg	6,311	4.7	381,338	5.77	4.6	6,907	5.2	429,217	5.45	4.6	3.9	30
Maerkisch District	4,608	3.4	284,467	5.29	3.6	4,567	3.4	281,419	5.14	3.0	2.0	80
Other locations	21,451	16.0	1,299,804	5.30	6.4	21,915	16.4	1,330,736	5.21	6.6	1.8	20
Total	**134,031**	**100.0**	**8,533,379**	**5.82**	**3.1**	**133,969**	**100.0**	**8,570,023**	**5.63**	**3.5**	**2.9**	**–10**

T5

LEG Portfolio

		High-growth markets		Stable markets		Higher yielding markets		**Total**	
		31.12.2019	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**	31.12.2018
Subsidised residential units									
Units		11,412	11,366	14,076	14,417	8,091	9,181	33,579	34,964
Area	sqm	788,485	787,254	954,389	983,205	530,850	608,876	2,273,724	2,379,335
In-place rent	€/sqm	5.12	5.08	4.73	4.69	4.45	4.42	4.80	4.77
EPRA vacancy rate	%	0.8	0.8	1.9	2.1	2.1	4.0	1.5	2.1
Free-financed residential units									
Units		29,431	28,291	37,958	36,626	33,063	34,088	100,452	99,005
Area	sqm	1,921,058	1,851,531	2,370,630	2,287,322	1,967,967	2,051,835	6,259,655	6,190,688
In-place rent	€/sqm	7.23	6.98	5.82	5.60	5.62	5.44	6.20	6.00
EPRA vacancy rate	%	2.0	2.4	3.2	3.5	5.9	6.0	3.5	3.8
Total residential units									
Units		40,843	39,657	52,034	51,043	41,154	43,269	134,031	133,969
Area	sqm	2,709,543	2,638,786	3,325,019	3,270,527	2,498,817	2,660,710	8,533,379	8,570,023
In-place rent	€/sqm	6.61	6.41	5.50	5.33	5.36	5.20	5.82	5.63
EPRA vacancy rate	%	1.7	2.0	2.9	3.1	5.2	5.7	3.1	3.5
Total commercial									
Units								1,272	1,267
Area	sqm							209,630	214,927
Total parking									
Units								34,283	33,855
Total other									
Units								2,634	2,510

Investing Activities

An amount of EUR 295.3 million was spent on maintenance and value-adding capital investments in the 2019 financial year (previous year: EUR 252.7 million). On a square metre basis, investment rose to approximately EUR 34 per square metre (previous year: EUR 29 per square metre). EUR 206.7 million (previous year: EUR 178.9 million) of total investment related to capital expenditure, while maintenance recognised as an expense amounted to EUR 88.6 million (previous year: EUR 73.8 million). The capitalisation rate was therefore 70.0 % (previous year: 70.8 %).

Modernisation work within the portfolio was continued in a targeted manner in the reporting year. Just in the five cities of Dortmund, Monheim, Münster, Mönchengladbach and Ratingen, around EUR 56 million was spent on energy-efficient façade and roof refurbishments, new windows, built-on balconies and improvements to the residential surroundings.

There was a particular focus on the modernisation concept for the Berlin district in Monheim again in 2019. Over the past few years, 2,000 of the planned 2,800 residential units have already been modernised. LEG has invested a total of around EUR 60 million to enhance the appeal of the apartments while also significantly increasing the buildings' energy efficiency.

Other focus areas in the reporting year included modernisation work in Dortmund-Bövinghausen and in Ratingen-West. Here, too, the buildings were extensively modernised with regard to energy efficiency and their amenity value was enhanced by redesigning the entrance and stairwell areas.

T6

Market segments

31.12.2019	Residential units	Residential assets in € million[1]	Share residential assets in %	Value/sqm in €	In-place rent multiplier	Commercial/ other assets in € million[2]	Total assets in € million
High-growth markets	**40,843**	**5,170**	**45**	**1,913**	**24.2x**	**246**	**5,416**
District of Mettmann	8,483	1,087	9	1,846	23.1x	74	1,161
Münster	6,200	902	8	2,194	27.4x	52	954
Dusseldorf	5,350	813	7	2,346	24.9x	49	862
Other locations	20,810	2,368	21	1,746	23.5x	71	2,439
Stable markets	**52,034**	**3,939**	**34**	**1,187**	**18.3x**	**134**	**4,074**
Dortmund	13,617	1,182	10	1,326	21.1x	52	1,233
Moenchengladbach	6,442	500	4	1,223	17.1x	14	514
Essen	3,373	265	2	1,210	18.4x	10	274
Other locations	28,602	1,993	17	1,110	17.2x	59	2,052
Higher yielding markets	**41,154**	**2,425**	**21**	**968**	**15.7x**	**78**	**2,502**
District of Recklinghausen	8,784	538	5	1,001	16.4x	19	557
Duisburg	6,311	418	4	1,095	16.4x	24	443
Maerkisch District	4,608	260	2	911	14.9x	3	263
Other locations	21,451	1,209	10	929	15.5x	31	1,240
Total portfolio	**134,031**	**11,535**	**100**	**1,353**	**19.8x**	**458**	**11,992**
Leasehold and land values (IAS 40)							39
Balance sheet property valuation assets (IAS 40)							**12,031**
Inventories (IAS 2)							1
Owner-occupied property (IAS 16)							24
Assets held for sale							25
Total balance sheet							**12,082**

[1] Excluding 378 residential units in commercial buildings; including 447 commercial and other units in mixed residential assets.
[2] Excluding 447 commercial units in mixed residential assets; including 378 residential units in commercial buildings, commercial, parking, other assets.

Report of the Supervisory Board

MICHAEL ZIMMER
Chairman of the Supervisory Board

Dear Shareholders,

LEG's sound positioning on the capital market combined with a stable financial foundation are key to the company's consistent success. This was also demonstrated again by the successful figures for 2019. The relevant key performance indicators are within the target corridor announced to the capital market. With regard to the share price performance and taking account of the proposed dividend, LEG is one of the top performers in the relevant peer group when it comes to profitability.

Thanks to this comfortable starting position, LEG is ideally positioned to take on the challenges of the changing market environment successfully.

Amongst others strategic decisions needed to be made to take account of our stakeholders' changed requirements, for example in relation to the political debate on rent policy and the general social commitment to sustainability, and these decisions needed to be integrated consistently in the company's day-to-day activities.

The Supervisory Board supports the company confidently, intensively and on a sustainable basis. LEG's strategic options are identified by the Management Board and the Supervisory Board and discussed in depth at the board meetings.

The Management Board and the Supervisory Board are continuing to focus on optimising the operational performance, extending the value chain and strengthening the portfolio.

The restructured Management Board started its work with these key strategic tasks and, in coordination with the Supervisory Board, updated the strategic agenda for 2025:

"LEG – liveable, simply good!
We create a home worth living in for people who simply want to live well."

The Management Board and the Supervisory Board are committed to this vision. It is particularly intended to express that the company pursues financial and non-financial goals relating to the environment, social responsibility and governance. The Supervisory Board and the Management Board thus see LEG as a particularly responsible and sustainable housing company that undertakes verifiable and socially relevant initiatives. Examples include the establishment of the foundation "Your Home Helps", a more restrained rent policy and rent reduction by means of early refinancing.

Our work will continue to focus on LEG's goal of generating high customer and employee satisfaction and further efficiency and profitability increases.

With the "#funktionalfairmieten" project, the ongoing professionalisation of the operational organisation and operational processes was rigorously continued in the 2019 financial year, establishing key milestones for sustainable optimisation of the core business. The Supervisory Board still sees the ongoing development of the operational core business and thus the increase in service quality for our customers as one of the company's main tasks. The Management Board and the Supervisory Board work together closely here. Among other things, they held a workshop focussing on these operational issues in April 2019 to ensure a shared understanding of the operational challenges of letting, customer satisfaction and rent potential and to develop measures to be derived on this basis.

As well as optimising its core business, LEG also particularly focused on strengthening its portfolio in 2019, as in the previous years. Despite the increasingly difficult environment, LEG acquired 5,748 residential units. LEG continues to regard itself as a net buyer and this is reflected in its sales planning. The sale of a large portfolio of 3,441 apartments to realign the portfolio efficiently was thus more than offset by acquisitions. Continuing and intensifying portfolio acquisitions will also be an important element of LEG's business policy in the years ahead. To support this goal and take account of the difficult market environment, LEG's own sales company LEG Consult GmbH hired additional staff and its organisation was adapted in line with the market requirements. The sales company and its organisation can implement both large-scale portfolio acquisitions and smaller acquisitions within and outside NRW. LEG's focus market is still North Rhine-Westphalia, but LEG is also open to acquiring portfolios outside this region if they are identified as profitable and value-adding opportunities by our process of close and continuous market observation and if they are compatible with the LEG platform.

The quality of the balanced LEG portfolio is continuously improved by the extensive strategic investment programme and selective new construction. The repositioned project development business area is characterised by a programme launched with a total volume of around 1,000 residential units for redensification on the company's own land and the planned acquisition of additional project developments of up to 250 residential units annually in the coming years.

LEG's management areas were also restructured in the 2019 financial year with the aim of supporting the operating units even more flexibly and efficiently in the future and taking on control and monitoring roles.

In addition, the financial foundation was further strengthened by the early conversion of the 2014/2021 convertible bond and financial flexibility was enhanced by placing two bonds with a total volume of EUR 800 million.

The well-being of the staff is very important to the Supervisory Board and the Management Board. We see the updated corporate culture on the basis of the redefined vision and strategy as an important element of staff leadership. This is to be reflected in key aspects of day-to-day work, for example in the concept for the new LEG headquarters.

The transition between the old and the new Management Board went smoothly. This also applies to the good quality of the close cooperation between the Management Board and the Supervisory Board. As in the previous years, this cooperation was characterised by a comprehensive and continuous dialogue on strategic, economic and financial matters and on current business developments. We on the Supervisory Board were able to satisfy ourselves of the legality, appropriateness and regularity of the Management Board's work at all times. In my role as Chairman of the Supervisory Board, I am available as a point of contact for the Management Board and particularly for the CEO.

In addition to the regular board meetings, extraordinary board meetings and conference calls were also held when necessary in 2019. Support for and monitoring of the Management Board is provided by the Supervisory Board at all times. Excused absences from board meetings were extremely rare.

Verbal or written reporting by the Management Board on key issues is a fundamental element of board meetings and conference calls. The Management Board always fulfilled its information duties promptly and in sufficient depth.

There were four scheduled meetings and three extraordinary meetings of the Supervisory Board in the 2019 financial year. The Management Board generally attends the meetings, but if necessary the Supervisory Board also meets without the Management Board. In the reporting year, the Supervisory Board and the Executive Committee temporarily discussed matters at meetings without the presence of the Management Board, and the Executive Committee held one meeting without the Management Board, as personnel matters of the Management Board were to be discussed.

In the 2018 financial year, Lars von Lackum was chosen as CDO in a structured selection process with the support of a human resources consultant. At that time, the human resources consultant had already noted that Lars von Lackum satisfied the requirements to take on the position of a CEO. In the context of this expertise, the Supervisory Board appointed Lars von Lackum as Thomas Hegel's successor in March 2019. With respect to the newly created role of COO, the Supervisory Board initiated a structured personnel selection process with the support of a human resources consultant. The same applied to the process for filling the role of CFO.

At the board meetings, the company ensures that in-house experts (representatives of LEG) are also in attendance as well as the Management Board. Examples include the Head of Accounting, the Head of Internal Audit and the Head of Legal/Compliance. The Supervisory Board also invited external consultants to attend committee meetings as necessary. Examples here were the mandatory participation of the auditor PwC in the meeting to adopt the annual financial statements or the participation of the property assessor, CBRE. Furthermore, the Supervisory Board engaged a law firm that advised the Supervisory Board on key decisions.

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

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary and three extraordinary meetings in the 2019 financial year.

Ten resolutions were also adopted by written procedure. The matters to which these pertained had been covered in detail at Supervisory Board meetings beforehand, but the Board had not been ready to make a decision at the time of the meeting. It was agreed by the Supervisory Board that the corresponding resolutions would be passed by way of written procedure. These mostly related to decisions on acquisitions that were discussed intensively beforehand both on the Executive Committee and on the Supervisory Board.

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

T7

Supervisory board meeting attendance 2019

Supervisory Board Member	07.03.2019	10.03.2019 (extraord.)	12.04.2019 (extraord.)	15.05.2019	27.08.2019	23.10.2019 (extraord.)	07.11.2019
Michael Zimmer (Chairman)	X	X	X	O	X	X	X
Stefan Jütte (Deputy Chairman)	X	X	X	X	X	X	X
Natalie Hayday	X	X	X	X	X	X	X
Dr Johannes Ludewig	X	X	X	X	X	X	X
Dr Claus Nolting	X	X	X	X	X	X	X
Dr Jochen Scharpe	X	X	X	X	X	X	O

X = attendance; O = no attendance

T8

Audit committee meeting attendance 2019

Audit Committee Member	14.02.2019	29.05.2019	20.08.2019	29.09.2019	09.10.2019
Michael Zimmer (Chairman)	X	X	X	X	X
Stefan Jütte (Deputy Chairman)	X	X	X	X	X
Dr Johannes Ludewig	X	X	X	X	X

X = attendance

T9

Executive committee meeting attendance 2019

Executive Committee Member	06.03.2019	14.05.2019	26.08.2019	04.11.2019
Stefan Jütte (Chairman)	X	X	X	X
Dr Jochen Scharpe (Deputy Chairman)	X	X	X	X
Natalie Hayday	X	X	X	X

X = attendance

The main agenda items of the Supervisory Board meeting on 7 March 2019:

- The 2018 annual financial statements, including the management report, and the 2018 consolidated financial statements, including the Group management report, were adopted following a detailed examination and on the recommendation of the Audit Committee.

- On the recommendation of the Audit Committee, the Supervisory Board reviewed and approved the content of the 2018 sustainability report and issued an outlook for the 2019 sustainability report.

- The Supervisory Board discussed the treasury policy and the development of the minimum liquidity.

- The proposed resolutions and the agenda for the seventh Annual General Meeting were adopted by the Supervisory Board. Among other matters, the proposed resolutions included the appointment of the auditor for the 2019 financial year. The Supervisory Board also elected Mr Stefan Jütte as the Deputy Chairman of the seventh Annual General Meeting for the event of the absence of the Chairman of the Supervisory Board.

- The Supervisory Board recommended that the Annual General Meeting adopt the report of the Supervisory Board for the 2018 financial year; it also approved the annual report for 2018, including the joint report by the Management Board and the Supervisory Board on corporate governance in accordance with item 3.10 of the German Corporate Governance Code.

- The Supervisory Board examined and determined the short-term incentive and the long-term incentive and thus the Management Board's target achievement in the 2018 financial year. It examined this also on the basis of PwC's confirmation of the mathematical accuracy of calculations for the short-term incentive and on the basis of an actuarial opinion for the long-term incentive programme. Including a discretionary factor for the short-term incentive that was determined by the Supervisory Board, bonus claims of 94 % were achieved. This is described in detail in the LEG Immobilien AG **> remuneration report**. The Supervisory Board prepared a resolution on the adjustment of Management Board remuneration and dealt with the pension regulations for Lars von Lackum.

- The Executive Committee and the Supervisory Board dealt with the selection process for finding a COO.

- Other agenda items included the resolution on the updated 2019 sales programme and the acknowledgement of the status of acquisitions.

At its extraordinary meeting on 10 March 2019 (held as a conference call), the Supervisory Board focused on the new structure and line-up for the Management Board.

At its extraordinary meeting on 12 April 2019, the Supervisory Board mainly discussed operational matters such as letting, customer satisfaction and rent potential.

The main topics addressed at the Supervisory Board meeting on 15 May 2019 were as follows:

- Preparations were made for the Supervisory Board's 2019 efficiency review.

- After detailed reports from the committees, the Supervisory Board acknowledged the quarterly report on Q1 2019 and the Supervisory Board reporting as at 31 March 2019.

- The updated financing strategy was dealt with by the Supervisory Board and the results of capital market monitoring were assessed from a strategic perspective.

- Other agenda items included the adjustment of the equity investment in EnergieServicePlus GmbH, the reorganisation of the residential project development division and the allocation of responsibilities on the Management Board from 1 June 2019 onwards.

The main focus areas at the Supervisory Board meeting on 27 August 2019 were as follows:

- The quarterly report on Q2 2019 including the II/2019 forecast, and the Supervisory Board report as at 30 June 2019 including the updated liquidity plan, were acknowledged by the Supervisory Board.

- The concept for TechnikServicePlus GmbH was discussed by the Supervisory Board.

- The Supervisory Board acknowledged the current status of the follow-up audit measures.

- The revision of the bonus model, the incentive model and the task and role profiles for branch managers was implemented.

- Another agenda item was the review of the seventh Annual General Meeting in May 2019 and the resulting preparations.

At the extraordinary meeting of the Supervisory Board on 23 October 2019, the Supervisory Board dealt specifically with capital market monitoring.

At its last meeting of the year on 7 November 2019, the Supervisory Board discussed the following agenda items:

- The meeting started by addressing the annual submission of the declaration of compliance by the Supervisory Board and the Management Board in accordance with section 161 AktG and the committee reports.

- The results of the efficiency review of the Supervisory Board's work were discussed in depth.

- Based on the report and recommendation of the Audit Committee, the Supervisory Board acknowledged the quarterly report on Q3 2019 and the Supervisory Board reporting as at 30 September 2019 and approved the business planning for 2020 to 2024.

- Furthermore, the Supervisory Board resolved the long-term incentive targets for the Management Board members for performance period 1 (2020 to 2021), performance period 2 (2020 to -2022) and performance period 3 (2021 to 2023).

- In addition to the status of acquisitions and new construction, other agenda items included information on the result of this year's GRESB and EPRA rating, the current status in the process of preparing the 2019 sustainability report and the current status of the acquisition of the new LEG headquarters.

- Finally, the Supervisory Board approved the significantly revised financing strategy, particularly the derived launch of a debt issuance programme, the issue of bonds with a total volume of approximately EUR 800 million and the early refinancing of loans in the amount of approximately EUR 340 million.

Meetings of the Committees of the Supervisory Board

Executive Committee

- The Executive Committee is made up of Mr Michael Zimmer, Chairman of the Supervisory Board, Mr Stefan Jütte, his deputy, and Dr Johannes Ludewig. The deputy member of the Executive Committee is Dr Jochen Scharpe. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. The Executive Committee held five (see table above) meetings in 2019. The members' attendance is shown in the table on > page 27 of the report.

- As well as meetings in person, the Executive Committee also held a number of conference calls.

- In addition to the strategic orientation, the new structure and line-up for the Management Board was another important topic on the Executive Committee.

- At on-site meetings, in conference calls and by way of written procedure, the Executive Committee discussed acquisitions of housing portfolios and the new structure and line-up for the Management Board, as well as the secondary activities of members of the Management Board and the organisational structure of LEG. It also discussed the long-term incentive targets for 2020. The Executive Committee made proposals for decisions on the matters discussed by the Supervisory Board.

- In 2019, the Executive Committee made proposals to the Supervisory Board for its decisions on acquisitions of 5,748 residential units.

- Capital market developments relevant to LEG are a fixed item on the agenda for Executive Committee meetings.

Nomination Committee

- The Nomination Committee consists of the members of the Executive Committee and meets as required. It suggests suitable candidates to the Supervisory Board for its nominations for Supervisory Board members to be made to the Annual General Meeting. No Nomination Committee meetings were held in 2019.

Audit Committee

The Audit Committee is made up of Mr Stefan Jütte, the Chairman, Dr Jochen Scharpe, the Deputy Chairman, and Ms Natalie Hayday.

In the 2019 financial year, the Audit Committee held four meetings. The members' attendance is shown in the table on > page 27 of the report.

The Audit Committee discussed the following topics at its four meetings:

- The Audit Committee meetings focussed on discussion of the annual financial statements as at 31 December 2018 and the management report for the 2018 financial year as well as discussion of the consolidated financial statements as at 31 December 2018 and the Group management report for the 2018 financial year. Other key items at the meetings of the Audit Committee included the business plan for 2020 to 2024, the analysis and consideration of the reports of the Management Board on the quarterly figures, the internal key performance indicators, the financing strategy and the 2018 sustainability report of the LEG Group.

- Furthermore, at its meetings the Audit Committee discussed the treasury policy and the development of the minimum liquidity, the recognition of the convertible bond in accordance with EPRA NAV, the updated sales programme for 2019, the audit planning for 2019, and the report of the Management Board in accordance with section 107(3) AktG. The appointment of the auditor for the 2020 and 2021 financial years was also discussed in the Audit Committee. The Audit Committee also regularly conferred on the risk reports and the risk inventory of the LEG Group.

In 2019, the Audit Committee adopted three resolutions by written procedure; these related to granting mandates to PwC in sub-projects and the tender for the auditor for 2021.

The Supervisory Board is regularly informed about the work of the respective committees at its meetings.

Corporate Governance

Working with the Management Board, in November 2019 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. **www.leg-wohnen.de/en/corporation/investor-relations/corporate-governance/corporate-governance-code-compliance-statement/**

In the context of the German Act Implementing the Second Shareholder Rights Directive of 12 December 2019 (ARUG II) that came into force as at 1 January 2020 and the associated amendment of the German Corporate Governance Code, the Supervisory Board commissioned a remuneration consultant to make proposals for the adjustment of the remuneration system and for the review of the remuneration level with effect from 2021. The adjusted remuneration system is to be put forward for approval at the Annual General Meeting on 20 May 2020.

In accordance with the German Corporate Governance Code, a regular review of the efficiency of the Supervisory Board's work should be conducted in the form of a self-evaluation. After discussing the procedure in depth, the Supervisory Board of LEG Immobilien AG conducted its self-evaluation in 2019 using the questionnaire it had agreed on. The results of the review did not show any need to implement measures to improve efficiency.

Audit of annual and consolidated financial statements

The Management Board prepared the annual (separate) financial statements and management report for the 2018 financial year in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements and Group management report in accordance with the provisions of the International Financial Reporting Standards (IFRS), as endorsed in the European Union, and the additional commercial regulations of section 315a HGB. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) was appointed as the auditor of the annual and consolidated financial statements for the 2019 financial year. PwC audited the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report, for the 2018 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 2018 financial year in good time. The Supervisory Board conducted its own audit of the annual financial statements, taking into account the report of the auditor and the report of the Chairman of the Audit Committee on the preliminary audit. The same applies to the consolidated financial statements, the Group management report and the proposal of the Management Board for the appropriation of earnings.

At the meeting of the Audit Committee on 6 March 2019 and at the meeting of the Supervisory Board on 7 March 2019, representatives for the auditor explained the results of the audit as a whole and the individual areas of audit focus. There were no objections. The auditors found no facts during their audit that contradict the declaration of compliance. In the committee meetings, the Audit Committee and the Supervisory Board of LEG Immobilien AG discussed the separate and consolidated financial statements, heard reports from representatives for the auditor on its independence and acknowledged the corresponding independence report.

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

The Supervisory Board approved the (separate) financial statements and management report for 2018 and the consolidated financial statements and Group management report for 2018 in accordance with the proposal of the Audit Committee on 7 March 2019. The annual financial statements for 2018 were therefore adopted and the consolidated financial statements for 2018 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 223,054,293.05 as a dividend (EUR 3.53 per share).

The remaining unappropriated surplus of EUR 3,881,578.88 is carried forward to new account.

At its meeting on 5 March 2020, after in-depth examination and discussion, the Supervisory Board adopted the annual financial statements for 2019, including the management report, and approved the consolidated financial statements for 2019, including the Group management report, on the recommendation of the Audit Committee.

LEG Immobilien AG is currently implementing a process to select the auditor of the annual and consolidated financial statements for the LEG Group, for which the Audit Committee is responsible. After completing the selection process, the Audit Committee will present its recommendations to the Supervisory Board. At the 2020 Annual General Meeting, the Supervisory Board will present the results of its selection process for the resolution on the election of the audit firm for the audit of the annual and consolidated financial statements for the company's financial year ending on 31 December 2021 and the auditor for any audit reviews of interim financial reports in the 2021 financial year.

Sustainability

The German CSR (Corporate Social Responsibility) Directive Implementation Act to implement an EU directive in addition to the HGB was announced in the German Federal Law Gazette on 18 April 2017. This law requires companies to publish a "non-financial declaration" in the management report or in a separate document referred to in the management report no later than four months after the end of the reporting period (sustainability report). LEG has met this requirement since the 2017 financial year.

The Management Board and the Supervisory Board of LEG Immobilien AG decided to issue the non-financial declaration by way of a sustainability report.

The Supervisory Board of LEG Immobilien AG, which is responsible for reviewing the content, defined the scope of this review in order to prepare for it. As support, it exercised the right to commission an external review of the content.

The Supervisory Board entrusted the Audit Committee with supporting, preparing and reviewing the sustainability report.

CSR is a very important matter for LEG and its executive bodies. Mr Stefan Jütte has taken over responsibility for supporting sustainability reporting from the Supervisory Board. Within LEG, a CSR structure has been implemented to incorporate the fundamental concept of CSR in day-to-day business, among other purposes. Responsibility for CSR activities lies with the Chairman of the Management Board.

The Management Board and the Supervisory Board

As at the end of the Annual General Meeting on 29 May 2019, Thomas Hegel, Chairman of the Management Board and Chief Executive Officer of LEG Immobilien AG, left the Management Board of LEG Immobilien AG by amicable mutual agreement for age reasons. The Supervisory Board agreed the early internal succession solution with him and actively implemented a generation change. Thomas Hegel is still available to the company as an adviser. At an extraordinary meeting on 10 March 2019, the Supervisory Board of LEG Immobilien AG appointed Mr Lars von Lackum as Chairman of the Management Board with effect from 1 June 2019. Mr von Lackum has been a member of the company's Management Board since 1 January 2019. Prior to his appointment as Chairman of the Management Board, he served as Chief Digital Officer with particular responsibility for future issues such as corporate development, digitalisation and innovation, new construction and project development, for which he will still be primarily responsible as CEO.

The operations function was also restaffed internally. The Supervisory Board appointed Dr Volker Wiegel as a new member of the Management Board with effect from 1 June 2019. With the appointment of Dr Volker Wiegel as COO, the Supervisory Board has set the course for further optimisation of operating business processes and thus for an increase in operating efficiency.

Eckhard Schultz, Chief Financial Officer, left the Management Board of LEG Immobilien AG by amicable mutual agreement with effect from 31 August 2019. Until the replacement of this Management Board role, Lars von Lackum will manage the finance area in addition to his tasks as CEO. To find a replacement, the Supervisory Board initiated a structured personnel selection process with the support of a human resources consultant This was successfully completed in the first quarter of 2020 with the selection of Susanne Schröter-Crossan. Susanne Schröter-Crossan will officially take on the mandate of Chief Financial Officer as at 1 July 2020.

In the Supervisory Board's opinion, the new Management Board team meets all requirements for LEG to be able to continue its growth successfully and be equipped for the challenges of the market and the political conditions. The Supervisory Board has structured the Management Board of LEG Immobilien AG to be fit for the future in the coming years, and also expects additional impetus for LEG's business and positioning.

We would like to thank the shareholders for their trust in the company. The Supervisory Board remains committed to the interests of all stakeholders.

Our special thanks go to the Management Board and the staff. In a year dominated by personnel changes and challenging conditions, they nonetheless successfully achieved the company's goals.

Dusseldorf, 5 March 2020

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 our shareholders, tenants, employees, and business partners, 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 and its subsidiaries.

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

Compliance with the recommendations of the German Corporate Governance Code

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

The Management Board and Supervisory Board have discussed compliance with the recommendations of the Code and, in November 2019, 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 2019 financial year has been printed in the corporate governance declaration > page 82 of the annual report.

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

- Item 2.3.3 of the Code suggests that the company should make it possible for shareholders to monitor the Annual General Meeting using modern communication media (e.g. the Internet). LEG Immobilien AG has examined the technical cost and effort this would entail and has come to the conclusion that this would be disproportionate to the information benefit for shareholders, particularly since all presentations by the Management Board are published on the company's website.

- In accordance with item 3.7(3) of the Code, in the event of a takeover bid, the Management Board should convene an extraordinary general meeting at which shareholders discuss the takeover bid and possibly decide on corporate action. It is questionable as to whether the organisational effort of convening a general meeting would be justified if no corporate action was to be resolved. Accordingly, the Management Board reserves the right to convene an extraordinary general meeting only if a resolution is planned.

Objectives for the composition of the Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members, all of whom are elected by the Annual General Meeting as shareholder representatives. The mandates of the current members of the Supervisory Board – with the exception of Dr Claus Nolting – will end after the Annual General Meeting that adopts the resolution on official approval of the Supervisory Board's actions for the 2022 financial year. Dr Claus Nolting's mandate ends after the Annual General Meeting that adopts the resolution on official approval of his actions for the 2020 financial year.

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

1. Fulfilment of the competence profile

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Implementation/fulfilment of objectives

In the selection process and the nomination of Supervisory Board candidates, the Supervisory Board and its Nomination Committee take account of the goals for its composition and the requirements stipulated in the competence profile. The Supervisory Board most recently took account of the goals, including the competence profile, in its nominations for the 2018 Annual General Meeting. To allow for an evaluation of their skills and a comparison with the goals, the CVs of the Supervisory Board members are published on LEG Immobilien AG's website **www.leg-wohnen.de/en/corporation/company/members-of-the-management-and-supervisory-boards/**

All goals have been achieved, and the competence profile set has been fulfilled with the current composition of the Supervisory Board. The Supervisory Board members have the professional and personal qualifications considered necessary. Diversity is adequately taken into account on the Supervisory Board, particularly with Natalie C. Hayday as a female Supervisory Board member. The Supervisory Board believes that it has a sufficient number of independent members. At present, all members of the Supervisory Board are independent as defined by item 5.4.2 of the GCGC. The regulation on the age limit (75 years at the time of the election) and the standard time limit for membership of the Supervisory Board of three full terms in office (15 years) are also taken into account.

Directors' dealings

In accordance with Article 19 of the Market Abuse Regulation (MAR), the members of the Supervisory Board and the Management Board are required to immediately disclose transactions involving shares and bonds of LEG Immobilien AG or related financial instruments if the value of the transactions attributable to the member or related persons reaches or exceeds a total of EUR 5,000 within a calendar year. Two transactions were reported to LEG Immobilien AG in the 2019 financial year. These were published in due form and are available on the company's website: **www.leg-wohnen.de/en/corporation/investor-relations/corporate-governance/directors-dealings/**

Share programmes

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

Transparency

In dealing with the shareholders of the company, LEG Immobilien AG abides by the principle of comprehensive, continuous and timely information. It provides detailed documents and information, such as financial reports, current ad hoc disclosures and press releases and information on Annual General Meetings on its website **www.leg.ag.**

Compliance management system

LEG Immobilien AG employs a compliance management system that bundles measurements directed at the compliance of legal provisions and internal policies especially with regard to the areas of anti-corruption, competition, taxes, product, data protection, and capital market. The compliance management system is targeted at preventing law and rule violations in the previously mentioned areas, to detect such violations and to sanction them. In this context, LEG Immobilien AG has appointed a compliance officer and an experienced external ombudsman as an additional point of contact. A whistle-blower system gives employees and third parties the opportunity to give notices on law violations in a protected environment. The compliance management system is described on > **page 82 of the annual report.**

Declaration in accordance with section 289f HGB and 315d HGB

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

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

Compliance

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

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

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

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

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system with the external ombudsman. Permanent benchmarking against other compliance management systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance management system. In 2019, the compliance management system of LEG was certificated by the Institute for Corporate Governance in the German Real Estate Industry.

Compliance is assigned to the Legal, Internal Audit, Compliance, Governance Bodies and Human Resources department, whose head reports directly to the CEO of LEG.

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

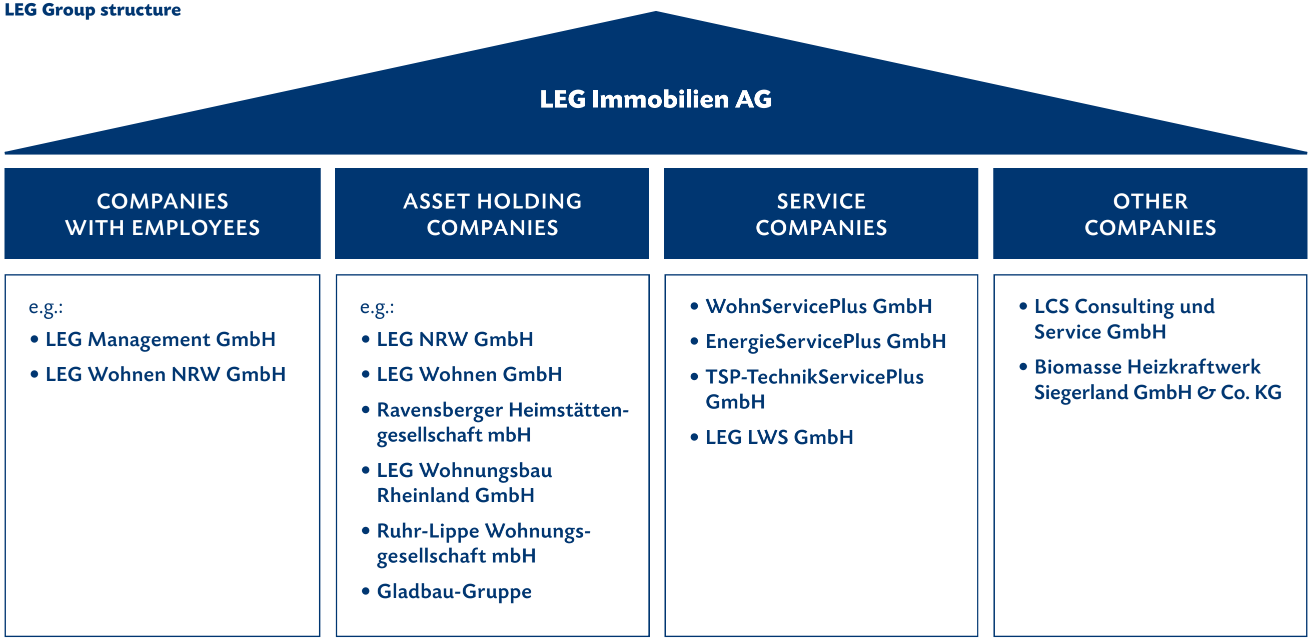
3

GROUP MANAGEMENT REPORT

Basic Information on the Group

G4

LEG Group structure



> Management Board members' responsibilities
> List of shareholdings

Group Structure and Legal Form

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

Business Activities and Strategy

Strategy process

In 2019, LEG enhanced its strategic orientation in a structured process. It starts with the vision: "We create a home worth living in for people who simply want to live well." The 2025 strategy describes LEG's positioning as a fast-growing residential property manager in Germany and the market leader in North Rhine-Westphalia. It defines three strategic pillars: optimising the core business, extending the value chain, and active portfolio management. Digitisation and innovation contribute to achieving the strategic goals faster, more efficiently and more comprehensively. High financial stability and public perception of LEG as a socially responsible company round off the strategy. Sustainability is thus an integral part of the Group strategy through which LEG will create economic, environmental and social added value for its stakeholders. > Strategy House

Business activities

With a portfolio of around 134,000 apartments at approximately 170 locations in North Rhine-Westphalia (97 % of the total portfolio as at 31 December 2019), LEG Immobilien AG is the regional market leader as well as one of the leading residential property companies in Germany. LEG Group's core business is the management and development of its own residential portfolio. LEG's business model is geared towards growth and customer focus, and thus takes a sustainable, value-oriented approach.

Thanks to the strategic focus on the affordable segment and its deep roots in the North Rhine-Westphalia (NRW) metropolitan region, LEG benefits in particular from this region's positive economic and demographic data. NRW is not just the most densely populated federal state and Germany's economic heavyweight, but also one of Europe's largest conurbations and a core region for immigration. With an average apartment size of 64 square metres and an average monthly rent of EUR 5.82 per square metre, LEG's housing is aimed at broad swathes of the population. Over 90 % the portfolio is located within the 60 km catchment area of structural high growth markets, 64 % alone in the commuter regions of the prosperous cities Dusseldorf and Cologne. Thanks to its regional presence, LEG has a competitive edge in terms of property management, operating efficiency and market knowledge. On this basis, LEG is pursuing the expansion of its regional focus, particularly in regions bordering NRW that have comparable structures.

Optimisation of core business – strengthening organic growth

LEG sees keeping reliable customers and gaining good new customers as key to its long-term success. The 2025 strategy provides the framework for a strong customer focus and further improvements in service quality and customer experience, taking account of economic efficiency and suitable value for money. The continuous improvement of internal processes and structures contributes to customer satisfaction as well as to efficiency. Here, LEG specifically focuses on the benefits that digitisation can bring for customers, employees and the company itself – for example, by using an accounting robot to handle mass processes, offering digital rental agreements, or communicating with customers via the tenant app and the tenant portal. In LEG's view, optimising core business also means further increasing operational excellence, not least with intelligent and flexible marketing of the housing portfolio and agile adjustment of its rental services in order to keep leveraging potential for rent increases even with growing regulation.

In 2019, rental growth on a like-for-like basis came to 2.9 %. These results were achieved on the basis of efficient, targeted investments of around EUR 34 per square metre in the reporting year. The positive rental development is expected to continue in the coming years. In its free-financed portfolio, rent increases can be made as a result of rent index adjustments, when letting properties to new tenants and in connection with modernisation measures. In the rent-restricted portfolio, inflationary developments can be passed on to tenants in the form of cost rent adjustments every three years and also in connection with value-adding modernisation work. Until 2028, rent control is set to expire for 24,000 residential units in the current rent-restricted portfolio. This provides leeway for rent adjustments on properties where the rent, in some cases, is significantly below market levels.

Extension of the value chain – value-added services and new construction

The customer base of around 365,000 tenants is the foundation for expanding services. LEG aims to create value-added for both its tenants and its shareholders with innovative offers such as multimedia. By working with partners, external expertise is combined with LEG's management flair to minimise risk. LEG successfully launched its multimedia business in cooperation with Unitymedia back in 2014. In January 2016, EnergieServicePlus took on energy technology and utilisation services for LEG's properties. LEG has also been offering its tenants green electricity and gas through its cooperation with the utility company lekker since 2019. Since 2017, LEG and B&O Service und Messtechnik AG have been running the joint venture TSP – TechnikServicePlus (51 % share held by LEG) for the management of small repairs. In addition to increasing customer satisfaction, these service activities as a whole make a significantly positive contribution to earnings that is set to keep on growing. The principle followed by LEG here is that all of the parties involved – tenants, cooperation partners and LEG – should benefit from the offer. LEG will continue to work on the development of new housing and non-housing services moving ahead.

Another component of its strategy is to construct at least 250 apartments per year on its own land from 2023 onwards. For this purpose, all LEG land has been examined for opportunities for more efficient use. LEG is also monitoring the market with regard to suitable and affordable land. By purchasing project developments, LEG aims to offer another 250 new apartments per year from 2023 onwards. LEG is thereby contributing to the creation of additional affordable housing.

Active portfolio management – external growth and portfolio optimisation

As part of the 2019 strategy process, LEG reviewed and adapted its acquisition strategy. LEG essentially intends to continuously improve the quality of its portfolio and expand the LEG property portfolio depending on the market situation. Taking account of its acquisition criteria, LEG has set itself the goal of further speeding up external growth where possible. The company is increasingly also considering purchase options that relate to smaller-scale portfolios and/or include attractive properties in nearby regions beyond NRW's borders. The first such acquisitions were made in 2019. In total, LEG signed purchase agreements for around 5,700 residential units in the past financial year.

Besides this expansion, LEG continues to apply its selective, value-oriented acquisition strategy that is geared towards increasing its operating margins and FFO yield and the development of net asset value (NAV). Even in an environment that has become more challenging due to increased purchase price demands, LEG strictly adheres to the principle of capital discipline. When making acquisitions, LEG often benefits from its competitive strengths, which include its reputation and handling of complex transactions. Since its IPO in 2013, LEG has thus acquired portfolios of various sizes with around 55,000 residential units in total. Thanks to their fast, sustainable integration, economies of scale can be leveraged and operating margins increased.

LEG also takes advantage of the appropriate market environment to sell sub-portfolios or individual properties in the context of portfolio optimisation. Following the large-scale portfolio streamlining involving around 3,000 residential units in 2019, no further major disposals are planned in this respect for the coming years.

Financial stability

LEG's business model and the company's ongoing growth are ensured by a solid statement of financial position and a favourable, secure, long-term financing structure in the interests of all stakeholders. A low LTV of 37.7 %, an average remaining term on financial liabilities of 8.1 years and average financing costs of 1.43 % document LEG's defensive risk profile and its strong position on the financing market. LEG has had an investment grade rating (Moody's Baa1) since May 2015 and thus has access to the widest range of financing instruments. **> Financing**

Public perception as a responsible enterprise

LEG exercises its social responsibility and takes care to ensure broad social acceptance. Climate protection is a focus of its modernisation programme, the main goal of which is the energy refurbishment of LEG's housing portfolios. One key element of its social commitment is the new foundation "Your Home Helps" with capital of EUR 16 million. With around 120 measures carried out in our neighbourhoods each year, LEG aims to stabilise these residential districts and lay the foundations for good neighbourliness. LEG provides a home to a broad range of people and also promotes diversity within its workforce. The company wishes to maintain ongoing dialogue with all stakeholder groups – customers, employers, shareholders, media, municipalities and politicians – to gain a better understanding of the social expectations and the measures LEG need to take to establish and retain trust and to expand partnerships. **Sustainability Report**

Group Management System

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

The management system of the LEG Group continues to be built on a control concept based on performance indicators, with the planning process serving as a key instrument. This is an integrated process resulting in five-year planning consisting of the statement of comprehensive income, the statement of financial position and the statement of cash flows. The entire process is based on detailed planning specific to properties, persons and projects. As part of the forecast process, planning for the current and following financial years is revised and updated at regular intervals on the basis of the current business performance. There is also 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 forecasts for the development of the liquidity situation are prepared on a monthly basis and allow potential financial risks to be identified at an early stage.

The Management Board, the Supervisory Board and executives are informed about the most relevant value drivers and current business performance on a monthly and quarterly basis in the form of standardised reporting. In addition, executives have access to up-to-date online reports in line with a "self-service" concept. These are gradually also becoming available to view on mobile devices such as tablets and smartphones using a recently introduced front end (Microsoft Power BI).

The foundation for this reporting system is the IT-based Group data warehouse, which is connected to the Group-wide SAP system and to the planning 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, completions of renovated vacant apartments, changes in the regulatory environment and also interest rate developments.

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

The overall system of key performance indicators is structured by functional areas to ensure a targeted control of individual areas. There is a target definition and achievement system within the functional areas. Corresponding responsibilities for all value drivers are defined within the organisation. The target system relates to 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, LTV and net debt/EBITDA, are also aggregated, analysed and assessed at Group level.

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

In the functional area "residential", LEG focuses in particular on further improving the performance indicators in its operating business. Key indicators include rent per square metre and vacancies, which directly and indirectly influence the Group's key figures. In particular, the key indicator for vacancies is analysed in detail using broken-down key indicators such as the number of completed renovations of vacant apartments, the letting performance (net lettings or terminations during a period) and analyses of the respective reasons for the vacancies. The corresponding cost items, such as maintenance measures and staff and non-staff operating costs, are budgeted and monitored. Monthly reporting is used to analyse effect relationships and to derive measures. The impact of acquisitions is examined separately.

The functional area administrative and other expenses primarily consists of the central divisions that perform general Group functions. Detailed budgets for the individual cost positions are discussed and agreed with the respective cost centre managers. There are further key figures that are not part of the Group management but are subject to monitoring on a regular basis.

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

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

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

Economic Report

General Economic Conditions

Significant economic slowdown

In 2019, economic development in Germany slowed considerably. This was chiefly due to continued weak exports since back in 2018, which achieved growth of only 1.0 % in 2019 according to figures from Deutsche Bundesbank. The punitive tariffs announced or threatened by the US had a negative impact on global trade in goods and international investment. In addition to industrial sectors focusing on the production of capital goods, the automotive industry was also affected by global consumer reticence. Germany's biggest economic sector was also facing the challenge of a technological transition phase.

In contrast to foreign trade, domestic demand proved robust on the whole. The favourable development of private household income resulted in a more dynamic increase in consumer spending while the saving rate remained virtually unchanged. With regard to private-sector investment, there was a particular increase in residential construction investment as compared to 2018, which boosted the construction sector. By contrast, domestic corporate investments declined significantly for the first time since 2016. According to the Federal Statistical Office, real gross domestic product (GDP) grew by 0.6 % overall in 2019. The Bundesbank expects another increase in GDP of 0.6 % for 2020 as a whole. However, foreign demand should then increase again, according to the Bundesbank, thus enabling the German economy to emerge gradually from the phase of weak exports.

Economic growth also slowed significantly in the euro area. Stagnating international trade at best, combined with uncertainty regarding the consequences of the US/China trade conflict and Brexit, curbed the development of the economy. By contrast, private consumer spending proved to be a positive factor in the euro area, too. The creation of jobs and the rise in real wages increased disposable income.

According to European Commission calculations, real GDP growth for 2019 is therefore expected to amount to 1.1 % after 1.9 % in 2018. A slight increase to 1.2 % is forecast for 2020. Uncertainties for GDP growth may arise from the spread of the novel coronavirus SARS-CoV-2.

According to provisional calculations by the Federal Statistical Office, the average number of people in work increased by 0.9 % in 2019 and thus reached a new record high of 45.3 million. Negative demographic effects were compensated for by increased labour market participation among the German population and the immigration of foreign workers. However, net immigration decreased in comparison to the previous year (2018: 386,000 people), reflecting both demographic change in the countries of origins and an improvement in the labour markets there. For 2019, the Bundesbank has forecast net immigration of around 320,000 people. The overall German unemployment rate fell to an average of 5.0 % in 2019 after 5.2 % in the previous year. Due to the weaker economy, the Bundesbank anticipates a slight increase to a still low level of 5.1 % in 2019. The unemployment rate decreased in North Rhine-Westphalia as well, averaging 6.5 % in 2019 after 6.8 % in the previous year.

Both the rise in employment and negotiated pay adjustments again led to growth in disposable income. Standard wages grew by 2.9 % in 2019 and were therefore ahead of inflation for the eighth year in a row. Measured by the consumer price index (HICP), the latter rose by 1.4 %. Somewhat lower inflation of 1.3 % is forecast for 2020 with growth in standard wages of 2.5 %.

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

NRW Residential Market

Increase in rents and purchases prices almost across the board in NRW

As in the previous year, substantial increases in asking rents and property prices are being observed across the board on the NRW residential market. From January to December 2019, asking rents in all 53 cities and districts rose significantly year-on-year. The median asking rent in NRW climbed by 3.1 % from EUR 6.85 per square metre in 2018 to EUR 7.06 per square metre in 2019. In the previous year, rent growth had amounted to 3.8 %. Rent growth thus slowed in comparison to the previous year, but was still above the inflation target issued by the ECB.

The price increases for owner-occupied apartments were once again considerably higher than rent growth. In sought-after regions in particular, purchase prices rose much more steeply than rents. Even in regions with a declining population, prices remained stable, whereas in the previous years they had been decreasing. The median price per square metre for owner-occupied apartments went up by 9.7 % in 2019. With an increase of 9.9 % in 2019, asking prices for apartment buildings recorded the highest growth.

Demand for housing and thus the appeal of NRW is constantly increasing. According to the latest provisional IT.NRW figures, the population rose slightly by around 20,500 year-on-year to approximately 17.93 million as at 31 December 2018. Counter to the general trend for utilisation of larger residential space, the average residential area in cities such as Cologne and Essen has already decreased since the start of the decade, which is seen as an indication of the current tense situation in these markets. Yields for investors have fallen considerably due to the differing growth in rents and in purchase prices. In some individual locations such as the Ruhr area, the hypothetical purchase price factors remain affordable, whereas in popular major cities in particular they can already be more than 30 times annual rental income.

Rent development

Compared to the previous year, the development of asking rents levelled off slightly. Average asking rents in NRW thus rose by 3.1 % between 2018 and 2019 (2018: 3.8 %). However, all cities and districts reported higher average asking rents (median values) than in the previous year. As in the previous year, the highest growth rates were in more rural districts such as Münsterland, East Westphalia and Bergisches Land. The biggest increases were reported in the districts of Coesfeld (up 6.3 %), Olpe (up 6.1 %), Borken (up 5.7 %), Steinfurt (up 5.5 %) and the Oberbergisch district (up 5.5 %). The city of Dortmund, which is the company's most important location with around 14,000 LEG apartments, was also at the upper end with rent growth of 4.1 %.

Increases of less than 2 % were observed only in Remscheid (up 1.4 %) and Bonn (up 1.2 %). However, Bonn reached the EUR 10 mark for the first time.

The most attractive housing market regions also continued to enjoy strong growth: the top performer with a median of EUR 11.39 per square metre (up 3.5 %) was still the city of Cologne. In second place was the state capital Dusseldorf with EUR 10.72 per square metre (up 4.0 %), followed by Münster with EUR 10.26 per square metre (up 2.6 %).

It is notable that rental growth in both 2018 and 2019 was comprehensive and homogeneous, and that there were no pronounced regional divergences in growth: 35 of the 53 districts and cities achieved growth rates of between 2.5 % and 4.5 %. The consistently good market situation benefited the metropolitan regions on the Rhine and Ruhr on the one hand, and the medium-sized university cities of Wuppertal (up 4.3 %) and Paderborn (up 4.1 %) on the other, as well as more peripheral districts such as Siegen-Wittgenstein (up 4.9 %) and Heinsberg (up 3.2 %).

As in the previous year, Höxter was the most affordable district in NRW, with an average asking rent of EUR 5.00 per square metre. Monthly rents below EUR 6.00 per square metre were also reported in the Hochsauerland district (EUR 5.50 per square metre), Hagen (EUR 5.56 per square metre), Gelsenkirchen (EUR 5.76 per square metre) and the Märkisch district (EUR 5.84 per square metre).

The situation in the low-cost segment – the lower quartile of asking rents – is the same as for asking rents overall. The most affordable residential market was Höxter at EUR 4.50 per square metre, followed by the Hochsauerland district (EUR 4.95 per square metre) and Hagen (EUR 5.00 per square metre). The lowest increases in the low-cost segment were reported by Hagen, up just 1.2 % as against the previous year. Low growth rates were also generated in Bochum (up 1.5 %) and Bottrop (up 1.7 %). The highest increases in this price segment were in Steinfurt (up 6.0 %), Herford (up 5.9 %), the Lippe district (up 5.9 %) and Borken (up 5.6 %).

Rent-restricted apartments

There were 534,500 rent-restricted apartments in NRW at the end of 2018. This figure was therefore down by around 10,300 units (– 1.9 %) as against the previous year. Around 457,600 of these units are rental apartments in multi-story residential buildings, while 76,900 are owner-occupied. With around 4.9 million multi-story residences in NRW, only 9.3 % of all rented accommodation was rent-restricted. In 2018, around 140,100 rental apartments (30.6 % of all rent restricted units) were still subject to past rent restrictions. At between 5 % and 10 %, the share of rent-restricted rental housing is particularly low in large cities with populations of more than 500,000. Examples include Essen (7.0 %) and Dusseldorf (5.2 %). In Dusseldorf, almost half of rent-restricted apartments are subject to past rent restrictions, meaning that the share of these apartments will grow ever lower in the coming years. Data for calendar year 2019 was not yet available when preparing this report.

Completed buildings and building permits

At around 48,100, the number of new apartments in residential and non-residential buildings completed in 2018 was only slightly below the previous year's level and represented the second-highest figure since 2005. Data for calendar year 2019 was not yet available when preparing this report.

The number of building permits remained at a high level. Throughout Germany, 1.3 % more residential building permits were granted between January and November 2019 than in the same period of the previous year. In NRW, by contrast, growth in the first half of 2019 came to 7.7 % at around 26,900 apartments. However, this is not enough to achieve the target of 80,000 apartments per year that are needed in NRW.

Vacancy development

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

The average vacancy rate in NRW in 2018 – based on active vacancies (real lettable living area) – was unchanged as against 2017 at 3.0 %. The vacancy rate was thus 20 basis points higher than the national average (2.8 %).

In addition to immigration, mainly younger households relocating for training or professional reasons have resulted in higher demand in selected cities. In the low-cost segment especially, this trend is further intensifying demand pressure and therefore causing prices to rise. The residential markets of Cologne, Dusseldorf, Bonn and above all Münster are showing indications of a housing shortage, reflected in very low vacancy rates in some cases. Reducing existing vacancies helped ease the pressure on the housing market for a long time.

However, these vacancy reserves have now been used up due to the continuing economic and cultural appeal of these cities. This is also reflected in the vacancy rates, with active vacancies amounting 0.9 % in Cologne, 1.4 % in Dusseldorf, 1.0 % in Bonn and 0.4 % in Münster. Münster therefore ranks among the cities with the lowest vacancy rates in all of Germany. Only Munich and Frankfurt have an even lower vacancy rate.

Outside the traditional growth centres, the housing markets in NRW displayed a somewhat mixed development. While the vacancy rates in the metropolitan areas along the Rhine and the Ruhr remained constant or decreased again slightly, increases were recorded in some rural districts of southern and eastern Westphalia. In the Hochsauerland district, the rate increased by another 20 basis points between 2017 and 2018 to 9.5 %. The Märkisch, Olpe and Siegen-Wittgenstein districts, as well as the Höxter, Lippe and Minden-Lübbecke districts, have also seen slight increases in the vacancy rate of between 20 and 40 basis points since 2015. By contrast, there is an encouraging trend in Duisburg, where the vacancy rate has been reduced by 30 basis points since 2015.

Data on the vacancy development in 2019 was not yet available when preparing this report.

Purchase prices

Purchase prices for owner-occupied apartments rose in 45 of the 53 districts in NRW in 2019 as a result of new construction activity continuing to focus on the higher-priced segment and sustained demand pressure. The state capital Dusseldorf was in the lead at EUR 4,000 per square metre (up 8.0 %), followed in second place by the million-strong metropolis Cologne at EUR 3,918 per square metre (up 4.0 %). Münster also passed the EUR 3,500 mark for the first time (EUR 3,759 per square metre); its attractiveness is reflected in a growth rate of 7.2 %.

The highest percentage increases were reported by the Siegen-Wittgenstein (up 27.0 %) and Oberbergisch (up 30.7 %) districts. In contrast to the development of asking rents, purchase prices for owner-occupied apartments in some districts and cities declined, particularly in Olpe (down 3.4 %), Herford (down 3.7 %), Heinsberg (down 3.9 %) and Oberhausen (down 5.7 %).

The top four locations in the apartment building segment – Dusseldorf, Cologne, Muenster and Bonn – were relatively close together in terms of prices. Median asking prices here were between EUR 2,712 (Bonn) and EUR 3,261 per square metre (Dusseldorf). Median purchase prices in the federal state's capital rose by almost 9.1 % in 2019. The highest increase in asking prices was recorded in the Bonn district at 33.0 %. There was also strong growth in Münster (up 29.6 %) and Soest (up 31.0 %). In line with the level of asking rents, purchase prices in the apartment building segment were lowest in the Höxter, Hochsauerland and Märkisch districts, and in the Ruhr area cities of Hagen, Herne and Gelsenkirchen (less than EUR 1,000 per square metre in each case). Although the Höxter district came last at EUR 645 per square metre, the price level was up 6.0 % compared to the previous year. In Unna (down 3.0 %) and Hamm (down 4.3 %), by contrast, prices decreased slightly in the apartment building segment.

Transaction Market

German residential property is still one of the most popular asset categories worldwide. According to CBRE, around EUR 16.3 billion was invested in portfolios with 50 or more units on the German residential property market in 2019. This represents a decline of 6.3 % compared to a volume of EUR 17.4 billion in 2018. The figure for 2018, however, had also included an individual transaction of EUR 2.9 billion. The biggest individual transaction in 2019, at almost EUR 2 billion, was the sale of the BGP portfolio to Union Investment and ZBI Immobilien AG. Overall, the number of residential units sold decreased by 13.3 % to 101,750 in 2019. The average price per residential unit accordingly rose by 5.8 % to EUR 156,350. The average purchase price per square metre was EUR 2,370.

Due to the low vacancy rate in multi-story residential buildings combined with simultaneous population growth and too few completions, major cities and university cities in Germany remain an attractive investment target for national and international investors. This is primarily attributable to immigration gains and rural-urban migration, as well as the ECB's continued low-interest policy. In addition, a shortage of products and regulation in some major cities such as Berlin are making investments in peripheral locations more attractive in terms of location and yields.

Due to the scarce supply of existing portfolios, interest in project developments is steadily increasing. Here, investors are particularly focusing on large-scale neighbourhoods as well as student residences and micro-apartments. Institutional investors such as insurance companies and pension funds account for the largest share of demand here. A total of around EUR 5.5 billion was invested in developments and new buildings in 2019. This segment thus accounted for around a third of the residential transaction market.

Compared to 2018, the share of international investors on the residential investment market fell by 8 percentage points to 13.3 % in 2019. However, international and German institutional investors with a long-term focus are counting on the continuing strong trend in immigration and internal migration, regardless of the increasing debate over regulation. The public sector was also more active again in 2019. Investing activities increased by almost 90 % year-on-year to EUR 1.9 billion, with public-sector housing companies investing both in existing properties and in new construction. The Berlin residential construction companies play a special role here due to their political mandate.

As in the previous years, North Rhine-Westphalia was one of the most sought-after regional investment locations in the residential segment in 2019. A total of around 18,000 residential units were sold for approximately EUR 2.7 billion last year as part of portfolio transactions or as large-volume individual properties. Revenue was thus slightly below the previous year's level (2018: around EUR 2.8 billion). The share of forward deals (acquisitions of new construction projects) came to around a third of the investment volume, with a rising trend. North Rhine-Westphalia's share of the total German transaction volume came to around 16% and was thus at a similar level as in the previous year.

In 2020, investment activity is likely to continue at slightly below the high level of 2019, as general sentiment on the German residential investment market remains positive overall, but the lack of existing portfolios and the decline in new construction are limiting the product supply.

Employees

LEG offers its employees "more than a roof over your job" **www.leg-wohnen.de/en/corporation/career/**: As in the previous years, a large number of activities in the areas of training, ongoing professional development and health management were implemented in the 2019 financial year. A central concern is to develop each employee individually and to support an attractive, pro-performance culture of cooperation. In 2019, LEG signed the Diversity Charter, thereby demonstrating its commitment to a respectful and unprejudiced work environment. **www.charta-der-vielfalt.de/en**

Number of employees

LEG employed 1,444 people at the end of 2019 (2018: 1,380). 51 of these were trainees (2018: 48). Adjusted for members of the Management Board, managing directors and trainees, the number of full-time equivalents (FTEs) was 1,287.7 (2018: 1,212.9 FTEs).

T10

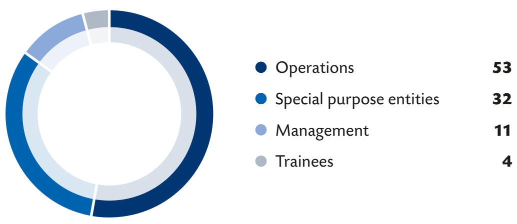
LEG employees as of 31 December

	2019	2018
Total	1,444	1,380
male in %	63	63
female in %	37	37
FTE (excluding Management Board members and trainees)	1,288	1,213
Fluctuation rate in %[1]	11.8	9.1
Absence rate in %[1]	6.5	6.8
Average age in years[1]	44.9	44.9

[1] without service company TechnikServicePlus and without BMHKW

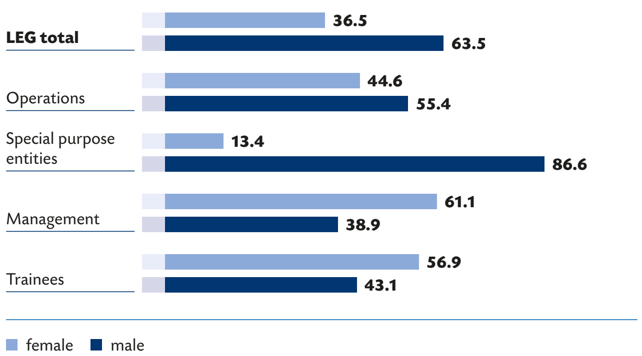
G5

Employee distribution by area of function (in %)



G6

Employee distribution by gender (in %)



Continuing professional development

In the 2019 financial year, 553 LEG employees took part in at least one continuing professional development event. With 1,400 seminar days and 1,033 employees (not including the joint venture TechnikServicePlus, and Biomass Heating Plant), each employee attended an average of 1.4 seminar days. Training costs at LEG amounted to EUR 874,837, or EUR 847 per employee.

Health management

One key element of LEG's health management is the family service, which offers an extensive range of advice and support, for example in the areas of advice on nursing care and arranging emergency care at home and for children.

Health management also provided a wide variety of offers for LEG employees again in 2019: the annual fruit campaign in the winter was accompanied by an extensive cold prevention campaign, the popular company runs were continued at various locations, and six LEG employees even earned the German Sports Badge and were rewarded with a voucher.

In 2019, LEG entered into a cooperation with one of the biggest German health insurance funds, which offers the employees access to a free digital health coach, among other services.

With regard to COVID 19, the Management Board of LEG has set up a crisis team as part of LEG's Business Continuity Management. From today's perspective, the company has taken all the necessary precautionary measures to ensure the highest possible protection of the workforce.

Training

Under the motto "Get a LEG up – your path to becoming a real estate professional", LEG attaches great importance to training **www.leg-wohnen.de/ausbildung/** with particular value placed on ensuring it is varied and well-rounded. LEG trainees work through many different areas and get to grips with all aspects of the property industry. Furthermore, they can opt to specialise in individual areas and so actively shape their training. The range of seminars and workshops on offer, such as the "fit for customers" service training, also ensure that trainees reach their goals. Trainees continue to have excellent chances of being taken on by the company permanently – in 2019, LEG signed contracts with all trainees who had expressed a wish to do so.

Since 2007, LEG has received 12 certificates from IHK Dusseldorf for outstanding achievements in vocational training. In 2019, LEG also received the certificate "Germany's best training workplace" from the magazine Capital for its outstanding training quality, in addition to the distinctions already awarded by Focus and Focus Money.

Current Business Activities

The positive business development of the LEG Group continued in 2019, with a further increase in the company's profitability. In the 2019 financial year, LEG continued to grow both organically and through external acquisitions. The acquisitions that were integrated in the course of the 2018 financial year were fully included in earnings figures for the first time in 2019. They were countered by the sales of 3,266 residential units, most of which took place at the start of the fourth quarter of 2019. Overall, FFO I – the most important financial performance indicator for Group management – rose by 7.1 % from EUR 318.6 million to EUR 341.3 million in the 2019 financial year.

In addition to the acquisitions, the development of existing rents, cost discipline in administrative costs and a further reduction in average financing costs from 1.58 % to 1.43 % also contributed to this increase. The affiliated companies providing tenant services also increased their contribution to FFO growth.

As at 31 December 2019, LEG Immobilien AG's property portfolio consisted of 134,031 apartments, 1,272 commercial units and 34,283 garages and parking spaces. > Table T11 shows the key portfolio data together with changes as compared to the previous year.

T11

Development of the real estate portfolio

Key figure	Usage	31.12.2019	31.12.2018	Change	in %
Number residential units	Residential	134,031	133,969	62	0.0
	Commercial	1,272	1,267	5	0.4
	Total residential and commercial	**135,303**	**135,236**	**67**	**0.0**
	Parking	34,283	33,855	428	1.3
	Total	**169,586**	**169,091**	**495**	**0.3**
Lettable area in sqm	Residential	8,533,379	8,570,023	– 36,644	– 0.4
	Commercial	209,630	214,927	– 5,297	– 2.5
	Total residential and commercial	**8,743,009**	**8,784,950**	**– 41,940**	**– 0.5**
In-place rent in €/sqm	Residential	5.82	5.63	0.19	3.4
	Residential (l-f-l)	5.82	5.66	0.16	2.9
	Commercial	7.32	7.47	– 0.15	– 2.0
	Total residential and commercial	**5.85**	**5.67**	**0.18**	**3.1**
Number of vacancies	Residential	4,319	4,689	– 370	– 7.9
	Commercial	250	248	2	0.8
	Total residential and commercial	**4,569**	**4,937**	**– 368**	**– 7.5**
EPRA vacancy in %	Residential	3.1	3.5	– 40 bp	
	Residential (l-f-l)	3.0	3.1	– 10 bp	
	Commercial	14.9	13.7	+ 120 bp	
	Total residential and commercial	**3.6**	**4.0**	**– 40 bp**	

Following acquisitions with transfer of ownership in 2019 (3,439 residential units) and sales (3,266 residential units), as well as further modifications (e.g., consolidation of units), the size of the housing portfolio as at 31 December 2019 was almost the same as in the previous year.

Selective acquisitions outside the core market of NRW were also made in Bremen and Lower Saxony in 2019.

Located in LEG's core markets, the portfolios acquired and transferred in 2019 offer the prospect of strong cost synergies (economies of scale) and additional potential for increasing value by reducing vacancies and adjusting rents in line with typical market levels. They have already contributed to the higher operating earnings in the 2019 financial year, as a standardised integration process allowed them to be quickly integrated into the Group's systems and processes.

No new apartments were completed in the reporting year, while for the subsequent years construction projects and in some cases their completion are planned in Cologne (around 400 apartments) and Hilden (around 40 apartments).

The sales were chiefly attributable to a special sales package of 2,700 apartments for which the economic transfer took place in October 2019. In addition, LEG sold properties that did not fit its portfolio structure in some individual cases. To a lesser extent, these properties were holdouts from former tenant privatisation activities. The portfolio was also slightly reduced partly as a result of apartments being combined or converted into commercial units, for example in the context of modernisation measures.

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

The average rent for the housing portfolio was EUR 5.82 per square metre as at 31 December 2019. On a like-for-like basis, rents were up 2.9 % as against the previous year. In the free-financed portfolio there was a rise of by as much as 3.6 %, with all market segments contributing. The average for rent-restricted apartments, which accounted for around 25.1 % of the total portfolio as at the end of the year, climbed by 0.5 % on a like-for-like basis to EUR 4.79 per square metre in the reporting year. Cost rent adjustments that are scheduled for restricted rental units every three years did not occur in the reporting year.

The EPRA vacancy rate for all residential units of the LEG Group including the properties acquired was 3.1 % as at the end of the 2019 financial year. On a like-for-like basis, the vacancy rate was 3.0 % and therefore slightly below the previous year's level of 3.1 %.

Various measures were implemented in the reporting year to continuously improve letting performance and to avoid fluctuation. These particularly included the task of streamlining and optimising operational processes that was launched with the #funktionalfairmieten project around the middle of the year. The key elements of this project included restructuring departments, defining interfaces and bundling topic areas with the aim of leveraging additional efficiency potential and making customers the focus of the company's activities to an even greater extent.

To meet growing customer requirements and further enhance the quality of the housing portfolio, LEG invested in the portfolio again in the past financial year as a sustainable and long-term property manager. Total expenditure (including new construction) amounted to EUR 295.3 million in the 2019 financial year, representing a year-on-year increase of EUR 42.6 million or 16.8 %. The share of value-adding capex was around 70.0 (previous year: 70.8 %). Average investment per square metre of rental and usable space was increased by more than EUR 4 year-on-year to around EUR 34 in 2019. LEG will also not slow the pace of its investing activities in the years ahead, and in particular it will carry out measures to optimise energy efficiency and improve its properties, establishing investment of more than EUR 30 per square metre in the next few years.

LEG's service companies, which include multimedia business, craftsmen services and the provision of energy and heating, have become increasingly established and are rolled out to the new properties after each acquisition. The underlying strategy of being able to offer residential and tenant services from a single source is having an increasingly positive impact on business performance. The contribution to FFO from service activities was further increased. Based on its positive experience to date, LEG is working to develop new value-adding concepts, amongst others the offer of tenant electricity and gas in cooperation with partners.

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

Financing

Further optimisation of the financing portfolio

In the 2019 financial year, the full conversion of the outstanding 2014/2021 convertible bond of EUR 300 million strengthened the company's equity on a sustainable basis. The convertible bond was converted into a total of 5.8 million new shares in September and October 2019.

By issuing a bond with a total volume of EUR 800 million, LEG further optimised its financing. The bond was placed as part of the debt issuance programme that was relaunched in November 2019, which has a total volume of EUR 5 billion. It was placed in two tranches with maturities of 8 years (EUR 500 million with a 0.875 % coupon) and 15 years (EUR 300 million with a 1.625 % coupon). Among other things, the proceeds from the bond were used to finance acquisitions of several housing portfolios on a long-term basis and to repay various bank loans of almost EUR 300 million ahead of schedule, particularly those with maturities between 2020 and 2022.

In addition, long-term financing agreements for a total of around EUR 300 million were rearranged in a favourable market environment during the 2019 financial year. Around EUR 200 million of this related to secured bank loans and EUR 100 million to unsecured financing instruments.

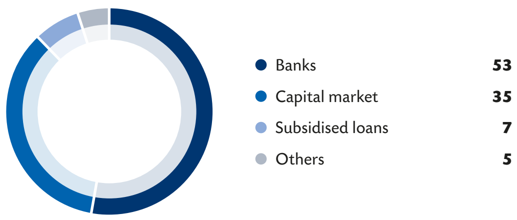
Through these financing measures, LEG further reduced its average interest rate as at the balance sheet date from 1.58 % in the previous year to 1.43 % while also increasing the average term of its liabilities from 7.6 years to 8.1 years.

Balanced financing structure

As at the end of the reporting period, approximately 53 % of the LEG Group's total financing liabilities relate to bank loans, 35 % to capital market financing (bonds, convertible bonds, commercial paper), and 12 % to subsidised loans and other liabilities. The loan liabilities to banks are essentially distributed among 12 banks, mainly in the mortgage and state bank (Landesbank) sector. In addition to market conditions, diversification in the loan portfolio is another key factor in selecting financing partners. In line with LEG's financing strategy, the maximum share of a single bank in the total loan portfolio is capped at around 20 % to avoid an excessive dependence on any one financing partner. LEG Group's largest creditor currently has a share of approximately 19.5 % of the bank loan portfolio.

G7

Financing sources (in %)



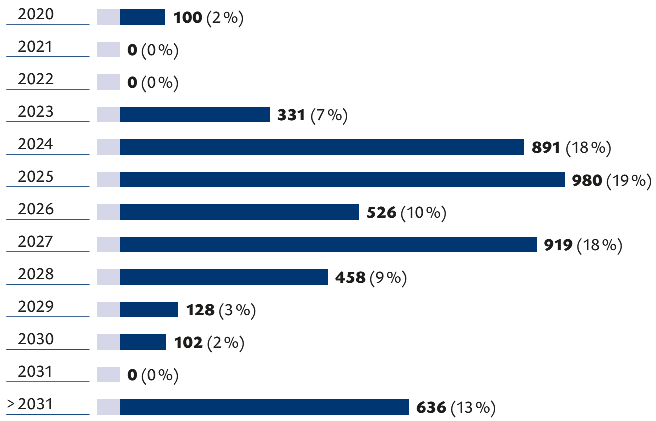
Balanced, long-term maturity profile

In line with its long-term business model and in order to ensure a defensive risk profile, LEG has a balanced, long-term financing structure. Financing is arranged with bank partners on the basis of medium- and long-term agreements with terms of up to 12 years. The funds raised on the capital market have terms of up to 15 years, while the financing agreed with other lenders has terms of up to 25 years. Taking into account the long-term subsidised loans (average maturity 24.4 years), the financing portfolio as a whole has an average maturity of approximately 8.1 years. The goal in managing contract terms is that no more than 25 % of total liabilities fall due within one year.

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

G8

Maturity profile
(credit volume in € million, share of total debt in %)

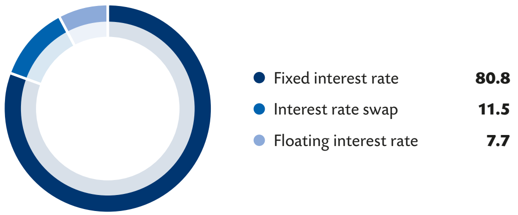


Interest rate hedging and average financing costs

The financing agreements, befitting the long-term strategic outlook of the company, are around 92 % hedged by fixed-rate agreements or interest rate swaps. Derivative interest hedging instruments are linked to the respective hedged loan (micro hedge). In line with the internal policies of LEG, interest rate derivatives can be used only to hedge interest rate risks. Thus, the company does not maintain open or speculative items. Given the long-term interest rate hedges in place, no significant interest rate risks are anticipated in the medium term. The average financing costs amounted to 1.43 % as at the end of the reporting period.

G9

Interest hedging instruments (in %)



Covenants

LEG's financing agreements usually contain regulations on compliance with defined financial covenants that the respective borrower must comply with throughout the term of the financing agreements.

The loan covenants agreed relate to key figures within the portfolio financed by the respective bank or at the level of the respective borrower. The key financial covenants are within the following ranges:

T12

Covenants 1

Loan-to-Value (LTV)	55 % – 80 %
Debt-Service-Coverage-Ratio (DSCR)/ Interest-Service-Coverage-Ratio (ISCR)	110 % – 505 %
Debt-to-Rent-Ratio (DRR)	665 % – 1,330 %

Furthermore, individual loan agreements contain stipulations regarding compliance with occupancy and vacancy rates.

With regard to unsecured financing instruments, the following key covenants apply at the level of LEG Immobilien AG:

T13

Covenants 2

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

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

High credit quality confirmed by corporate ratings

LEG has had a "Baa1" long-term issuer rating since 2015, which has since been continuously confirmed by Moody's. The rating particularly reflects the strong market position, leading portfolio management and long-term financing strategy of LEG Immobilien AG. The strong corporate rating forms the basis for LEG's broadly diversified financing portfolio.

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

Dividend

The Management Board and the Supervisory Board intend to propose a dividend of EUR 3.60 per share at the Annual General Meeting for the 2019 financial year on 20 May 2020. The dividend is higher than in the previous year despite the 9.2 % increase in the number of shares. The dividend proposal translates into a total distribution of EUR 248.4 million, 11.4 % more than 2019's EUR 223.1 million.

LEG intends to distribute at least 70 % of its FFO I to shareholders as a dividend on a sustainable basis. However, given the higher number of shares, the payout ratio for the fiscal year 2019 dividend will increase to 72.8 % of FFO I on a one-time basis.

The dividend yield amounts to 3.4 % based on the year-end closing price for 2019.

LEG may take into consideration to propose a scrip dividend for fiscal year 2019 at the Annual General Meeting.

Analysis of Net Assets, Financial Position and Results of Operations

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

Results of operations

Aggregate income statement
The condensed income statement is as follows:

In spite of considerably higher maintenance expenses and staff costs, net rental and lease income increased by 3.9 % to EUR 435.0 million.

Adjusted EBITDA increased by EUR 21.3 million to EUR 426.5 million. Adjusted EBITDA margin therefore rose to 73 % in the reporting period (comparative period: 72 %).

In the context of portfolio remeasurement to the end of the year, valuation gains of EUR 923.4 million were determined (previous year: EUR 800.9 million).

Lower net finance earnings result largely from the additional expense of EUR 17.7 million due to the conversion of a convertible bond and higher prepayment penalties of EUR 27.6 million for early refinancing of bank and subsidised loans.

T14

Condensed income statement

€ million	Q4 2019	Q4 2018	**01.01. – 31.12.2019**	01.01. – 31.12.2018
Net rental and lease income	94.8	103.4	435.0	418.6
Net income from the disposal of investment properties	– 0.5	– 0.3	– 1.3	– 0.9
Net income from the remeasurement of investment properties	371.8	417.4	923.4	800.9
Net income from the disposal of real estate inventory	1.1	– 0.2	– 0.8	– 1.6
Net income from other services	1.8	1.5	3.3	5.3
Administrative and other expenses	– 28.2	– 13.1	– 66.1	– 44.8
Other income	0.2	0.3	0.5	0.8
Operating earnings	**441.0**	**509.0**	**1,294.0**	**1,178.3**
Interest income	0.3	0.4	0.5	0.8
Interest expenses	– 60.3	– 37.3	– 153.1	– 109.3
Net income from investment securities and other equity investments	2.8	– 1.6	5.8	1.0
Net income from associates	0.2	0.0	0.2	0.2
Net income from the fair value measurement of derivatives	– 3.5	74.7	– 96.1	25.4
Net finance earnings	**– 60.5**	**36.2**	**– 242.7**	**– 81.9**
Earnings before income taxes	**380.5**	**545.2**	**1,051.3**	**1,096.4**
Income taxes	**– 48.3**	**– 105.8**	**– 230.2**	**– 249.3**
Net profit or loss for the period	**332.2**	**439.4**	**821.1**	**847.1**

Net rental and lease income

Net rental and lease income for 2019 is composed as follows:

T15

Net rental and lease income

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Net cold rent	146.3	143.3	586.1	560.2
Profit from operating expenses	– 1.9	– 1.2	– 2.8	– 4.5
Maintenance for externally procured services	– 24.1	– 14.2	– 61.0	– 51.8
Employee benefits	– 19.4	– 15.1	– 68.2	– 60.3
Allowances on rent receivables	– 2.1	– 4.3	– 7.9	– 8.4
Depreciation and amortisation expenses	– 3.0	– 1.6	– 10.0	– 6.1
Other	– 1.0	– 3.5	– 1.2	– 10.5
Net rental and lease income	**94.8**	**103.4**	**435.0**	**418.6**
Net operating income-margin (in %)	**64.8**	**72.2**	**74.2**	**74.7**
Non-recurring project costs – rental and lease	5.4	1.2	8.3	5.8
Depreciation	3.0	1.6	10.0	6.1
Adjusted net rental and lease income	**103.2**	**106.2**	**453.3**	**430.5**
Adjusted net operating income-margin (in %)	**70.5**	**74.1**	**77.3**	**76.8**

The LEG Group increased its net rental and lease income by EUR 25.9 million (4.6 %) against the comparative period. In-place rent per square metre on a like-for-like basis rose by 2.9 % in the reporting period.

Moreover the lease accounting in accordance with IFRS 16 resulted in an improvement of profit from operating expenses (EUR 1.2 million) and other (EUR 4.3 million) with a simultaneous increase in depreciation and amortisation expenses (EUR 3.0 million). The increase in staff costs by EUR 7.9 million mainly resulted from higher expenses for the internal craftsman organisation.

Adjusted net rental and lease income rose by 5.3 %, slightly more strongly than the rental trend. As a result, in the 2019 financial year, the adjusted net operating income (NOI) margin further slightly increased to 77.3 % (previous year: 76.8 %).

The EPRA vacancy rate, which is a ratio of rent lost due to vacancy to potential rent in the event of full occupancy on the basis of market rental on the current reporting date, was reduced year on year both on a like-for-like basis and overall. This development is largely driven by a higher letting performance, resulting in both vacancy reduction and higher rental income.

T16

EPRA vacancy rate

€ million	2019	2018
Rental value of vacant space – like-for-like	18.4	18.6
Rental value of vacant space – total	19.4	21.5
Rental value of the whole portfolio – like-for-like	612.4	601.9
Rental value of the whole portfolio – total	627.5	619.4
EPRA vacancy rate – like-for-like (in %)	**3.0**	**3.1**
EPRA vacancy rate – total (in %)	**3.1**	**3.5**

The EPRA capex splits the capitalised expenditure of the financial year in comparison to the previous year in three components. On a like-for-like portfolio basis, the value-adding modernisation work as a result of the strategic investment program surged by EUR 23.9 million to EUR 197.6 million in the reporting year. In the area of acquisitions, the upturn is due primarily to investments in portfolios already acquired in 2018. The increase in the Development area is attributable to the new construction project in Hilden.

T17

EPRA capex

€ million	2019	2018
Acquisitions	4.0	3.0
Development	5.1	2.2
Like-for-like Portfolio	197.6	173.7
Capex	**206.7**	**178.9**

In addition to the value-adding modernisation, maintenance recognised as an expense contributed to the EUR 42.6 million increase in total investment in the reporting period to EUR 295.3 million. Total investment in investment properties therefore increased to EUR 33.86 per square metre (without new construction activities EUR 33.28 per square metre).

T18

Maintenance and modernisation

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Maintenance expenses	30.2	19.7	88.6	73.8
thereof investment properties	29.5	19.4	86.8	72.4
Capital expenditure	70.3	58.6	206.7	178.9
thereof investment properties	69.1	56.4	201.5	174.0
Total investment	**100.5**	**78.3**	**295.3**	**252.7**
thereof investment properties	98.6	75.8	288.3	246.4
Area of investment properties in million sqm	8.59	8.78	8.72	8.60
Average investment per sqm (€)	**11.71**	**8.92**	**33.86**	**29.38**
Average investment per sqm without new construction (€)	**11.47**	**8.79**	**33.28**	**29.13**
Capex ratio in %	**70.0**	**74.8**	**70.0**	**70.8**

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

T19

EPRA cost ratio

€ million	2019	2018
Adjusted EBITDA	– 426.5	– 405.2
Rental income	586.1	560.2
Maintenance expenses	– 61.0	– 51.8
Management costs	98.6	103.2
Maintenance expenses	61.0	51.8
Leasehold land interests	– 4.7	– 4.7
EPRA costs (including direct vacancy costs)	154.9	150.3
Direct vacancy costs	– 12.2	– 12.0
EPRA costs (excluding direct vacancy costs)	142.7	138.3
Rental income	586.1	560.2
Leasehold land interests	– 4.7	– 4.7
Gross rental income	581.4	555.5
EPRA cost ratio (including direct vacancy costs)	**26.6 %**	**27.1 %**
EPRA cost ratio (excluding direct vacancy costs)	**24.5 %**	**24.9 %**
Adjustment for maintenance	61.0	51.8
Adjusted EPRA costs (including direct vacancy costs)	93.9	98.5
Adjusted EPRA costs (excluding direct vacancy costs)	81.7	86.5
Adjusted EPRA cost ratio (including direct vacancy costs)	**16.2 %**	**17.7 %**
Adjusted EPRA cost ratio (excluding direct vacancy costs)	**14.1 %**	**15.6 %**

Net income from the disposal of investment properties

In 2019, net income from the disposal of investment properties is composed as follows:

T20

Net income from the disposal of investment properties

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Income from the disposal of investment properties	168.6	9.8	195.3	29.5
Carrying amount of the disposal of investment properties	– 168.8	– 9.8	– 195.5	– 29.5
Costs of sales of investment properties sold	– 0.3	– 0.3	– 1.1	– 0.9
Net income from the disposal of investment properties	**– 0.5**	**– 0.3**	**– 1.3**	**– 0.9**
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	–	1.8	0.2	1.8
Adjusted net income from disposals	**– 0.5**	**1.5**	**– 1.1**	**0.9**

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

Sales of investment properties amounted to EUR 195.3 million and relate largely to a block sale notarised in the 2019 financial year.

Net income from the remeasurement of investment properties

Net income from the remeasurement of investment property amounted to EUR 923.4 million in 2019 (2018: EUR 800.9 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 8.3 % (2018: 8.2 %).

The average value of residential investment property (including IFRS 5 properties) was EUR 1,353 per square metre as at 31 December 2019 (31 December 2018: EUR 1,198 per square metre) including acquisitions and EUR 1,346 per square metre not including acquisitions. Including investments in modernisation and maintenance work, the average portfolio value thus developed by 12.4 % in the financial year (2018: 10.3 %).

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

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

T21

EPRA net initial yield

€ million	31.12.2019	31.12.2018
Investment properties	12,031.9	10,702.2
Assets held for sale	25.2	20.3
Market value of the residential property portfolio (net)	12,057.1	10,722.5
Estimated incidental costs of acquisition	1,184.7	1,056.9
Market value of the residential property portfolio (gross)	13,241.8	11,779.4
Annualised net cash rental income of the financial year (net cold rent)	576.3	552.3
Cash income from operating and heating costs	265.0	268.0
Cash expenses from operating and heating costs	– 266.8	– 255.4
Annualised gross cash rental income of the financial year (net cold rent)	574.5	564.9
Maintenance expenses	– 60.7	– 51.7
Vacancy and non-allocable operating costs	– 4.2	– 4.5
Legal and consulting costs	– 4.2	– 5.3
Property manager fee owners' association	– 0.4	– 0.3
Annualised property expenses	– 69.5	– 61.8
Annualised net cash rental income of the financial year	505.0	503.1
Adjustments for rental incentives	4.3	4.9
Topped-up annualised net cash rental income of the financial year	509.3	508.0
EPRA Net Initial Yield in %	**3.8**	**4.3**
EPRA topped-up Net Initial Yield in %	**3.8**	**4.3**

Net income from the disposal of real estate inventory

In 2019, net income from the disposal of real estate inventory is composed as follows:

T22

Net income from the disposal of real estate inventory

€ million	Q4 2019	Q4 2018	**01.01. – 31.12.2019**	01.01. – 31.12.2018
Income from the disposal of inventory properties	2.9	1.1	2.9	1.6
Carrying amount of the real estate inventory disposed	– 1.4	– 0.6	– 1.4	– 0.8
Cost of sales of the real estate inventory disposed	– 0.3	– 0.7	– 2.3	– 2.4
Net income from the disposal of real estate inventory	**1.2**	**– 0.2**	**– 0.8**	**– 1.6**

The sale of the remaining properties of the former Development division continued in 2019. The remaining real estate inventory held as at 31 December 2019 amounted to EUR 1.3 million, EUR 0.4 million of which related to properties under development.

Net income from other services

T23

Other services

€ million	Q4 2019	Q4 2018	**01.01. – 31.12.2019**	01.01. – 31.12.2018
Income from other services	3.7	3.4	9.5	11.7
Expenses in connection with other services	– 1.9	– 1.8	– 6.2	– 6.4
Net income from other services	**1.8**	**1.6**	**3.3**	**5.3**

Other services include generation of electricity and heat, IT services for third parties and management services for third-party properties.

Due to a lengthy inventory and downtime of the biomass combined heat and power station, the very good operating results of the electricity and heat generated in the previous year were not achieved in the 2019 financial year.

Administrative and other expenses

Administrative and other expenses are composed as follows:

T24

Administrative and other expenses

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Other operating expenses	– 21.4	– 7.3	– 31.5	– 17.5
Employee benefits	– 5.8	– 5.3	– 30.1	– 24.8
Purchased services	– 0.2	– 0.2	– 1.1	– 0.9
Depreciation and amortisation	– 0.8	– 0.3	– 3.4	– 1.6
Administrative and other expenses	**– 28.2**	**– 13.1**	**– 66.1**	**– 44.8**
Depreciation and amortisation	0.8	0.3	3.4	1.6
Non-recurring project costs and extraordinary and prior-period expenses	17.5	3.4	29.5	9.2
Adjusted administrative and other expenses	**– 9.9**	**– 9.4**	**– 33.2**	**– 34.0**

The main drivers for the increase in administrative and other expenses of EUR 21.3 million included the extraordinary staff costs which resulted in project costs increasing by EUR 20.3 million. The increase in other operating expenses resulted largely from donations of EUR 16.0 million to the “Your Home Helps” foundation, real estate transfer tax of EUR 10. 0 million from a purchase in 2016 and countervailing non-recurring income of EUR 11.7 from ending the cooperation with innogy. Depreciation and amortisation expenses rose primarily as a result of the initial application of IFRS 16.

Adjusted administrative expenses decreased by – 2.4 % to EUR 33.2 million and thus in the opposite direction to rental and lease income.

Net finance earnings

T25

Net finance earnings

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Interest income	0.3	0.4	0.5	0.8
Interest expenses	– 60.3	– 37.3	– 153.1	– 109.3
Net interest income	**– 60.0**	**– 36.9**	**– 152.6**	**– 108.5**
Net income from other financial assets and other investments	2.8	– 1.6	5.8	1.0
Net income from associates	0.2	–	0.2	0.2
Net income from the fair value measurement of derivatives	– 3.5	74.7	– 96.1	25.4
Net finance earnings	**– 60.5**	**36.2**	**– 242.7**	**– 81.9**

The measurement of derivatives from convertible bonds is the key factor driving the deterioration of net finance earnings from EUR – 81.9 million to EUR – 242.7 million. In the reporting period, net income from the fair value measurement of derivatives again resulted primarily from changes in the fair value of derivatives from the convertible bonds in the amount of EUR – 94.8 million (comparative period: EUR 26.5 million).

The increase in interest expense was due primarily to early refinancing of bank and subsidised loans in the 2019 financial year, which resulted in prepayment penalties of EUR 27.6 million. The measurement of the convertible and corporate bonds at amortised cost of EUR – 21.3 million (previous year: EUR – 10.0 million) was included in interest expenses from loan amortisation in the reporting period.

The average interest rate for the entire loan portfolio declined to 1.43 % (2018: 1.58 %) on an average term of 8.1 years (2018: 7.6 years).

Income taxes

T26

Income tax expenses

€ million	Q4 2019	Q4 2018	**01.01. – 31.12.2019**	01.01. – 31.12.2018
Current tax expenses	– 2.1	– 1.6	– 15.0	– 6.5
Deferred tax expenses	– 46.2	– 104.2	– 215.2	– 242.8
Income tax expenses	**– 48.3**	**– 105.8**	**– 230.2**	**– 249.3**

As at 31 December 2019, the current effective Group tax rate was 21.9 % (previous year: 22.7 %). The decline in income taxes from – EUR 249.3 million in the previous year to EUR – 230.2 million is due essentially to a reduction of the tax rate (application of the extended trade tax reduction) at a large group company with a property portfolio.

For the 2019 financial year, expenses for current income taxes were EUR – 15.0 million. In the previous year, there was a current tax charge of EUR – 6.5 million. The increase relates primarily to the disposal of properties. As in the previous year, offsetting losses carried forward continued to result in lower taxation.

Reconciliation to FFO

FFO is a key performance indicator at LEG. LEG distinguishes between FFO I (not including net income from the disposal of investment properties), FFO II (including net income from the disposal of investment properties) and AFFO (FFO I adjusted for capex). 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:

T27

Calculation of FFO I, FFO II and AFFO

€ million	Q4 2019	Q4 2018	01.01. – 31.12.2019	01.01. – 31.12.2018
Net cold rent	146.3	143.3	586.1	560.2
Profit from operating expenses	– 1.9	– 1.2	– 2.8	– 4.5
Maintenance for externally procured services	– 24.1	– 14.2	– 61.0	– 51.8
Employee benefits	– 19.4	– 15.1	– 68.2	– 60.3
Allowances on rent receivables	– 2.1	– 4.3	– 7.9	– 8.4
Other	– 1.0	– 3.5	– 1.3	– 10.4
Non-recurring project costs (rental and lease)	5.4	1.2	8.3	5.8
Current net rental and lease income	**103.2**	**106.2**	**453.2**	**430.6**
Current net income from other services	**2.5**	**2.2**	**6.0**	**7.8**
Employee benefits	– 5.7	– 5.2	– 30.1	– 24.8
Non-staff operating costs	– 21.6	– 7.5	– 32.6	– 18.4
Non-recurring project costs (admin.)	17.5	3.4	29.5	9.2
Extraordinary and prior-period expenses	0.0	0.0	0.0	0.0
Current administrative expenses	**– 9.8**	**– 9.3**	**– 33.2**	**– 34.0**
Other income	0.1	0.2	0.5	0.8
Adjusted EBITDA	**96.0**	**99.3**	**426.5**	**405.2**
Cash interest expenses and income	– 20.3	– 18.4	– 78.7	– 77.2
Cash income taxes	7.2	– 1.7	– 2.8	– 5.8
FFO I (before adjustment of non-controlling interests)	**82.9**	**79.2**	**345.0**	**322.2**
Adjustment of non-controlling interests	– 0.7	– 2.7	– 3.7	– 3.6
FFO I (after adjustment of non-controlling interests)	**82.2**	**76.5**	**341.3**	**318.6**
Adjused net income from disposals	–	1.6	– 1.1	0.9
Cash income taxes from disposal of investment properties	– 9.4	0.1	– 12.3	– 0.7
FFO II (incl. disposal of investment properties)	**72.8**	**78.2**	**327.9**	**318.8**
CAPEX	– 70.3	– 58.6	– 206.7	– 178.9
Capex-adjusted FFO I (AFFO)	**11.9**	**17.9**	**134.6**	**139.7**

At EUR 341.3 million in the year under review, FFO I (not including net income from the disposal of investment property) was 7.1 % higher than in the previous year (EUR 318.6 million). The rise resulted from the positive impact of higher rents in connection with an expansion of the EBITDA margin from 72.3 % in the previous year to 72.8 % and from the decline in cash income taxes.

The reduced average interest rate due to refinancing measures also impacts positively on the interest coverage ratio (ratio of adjusted EBITDA to cash interest expense) which increased from 525 % in the comparative period to 542 %.

Net assets

Balance sheet separate financial statements

The condensed statement of financial position is as follows:

T28

Condensed statement of financial position

€ million	31.12.2019	31.12.2018
Investment properties	12,031.1	10,709.0
Prepayments for investment properties	53.5	0.0
Other non-current assets	269.2	175.9
Non-current assets	12,353.8	10,884.9
Receivables and other assets	89.6	55.4
Cash and cash equivalents	451.2	233.6
Current assets	540.8	289.0
Assets held for sale	25.2	20.3
Total assets	**12,919.8**	**11,194.2**
Equity	5,933.9	4,783.9
Non-current financing liabilities	4,856.8	4,113.3
Other non-current liabilities	1,654.2	1,382.3
Non-current liabilities	6,511.0	5,495.6
Current financing liabilities	197.1	484.8
Other current liabilities	277.8	429.9
Current liabilities	474.9	914.7
Total equity and liabilities	**12,919.8**	**11,194.2**

Investment property increased largely as a result of acquisitions (EUR 360.7 million), remeasurement income (EUR 923.4 million), value-enhancing modernisation measures (EUR 201.2 million) and offsetting disposals (EUR 200.2 million, including EUR 25.2 million with economic transfer after 31 December 2019) by EUR 1,322.1 million against the previous year. As at the reporting date, the share of total assets was 93.1 %.

Receivables and other assets increased by EUR 34.2 million. This was driven by the short-term investment in securities.

Equity increased largely as a result of the net profit for the period (EUR 821.1 million) and the conversion of a convertible bond issued in 2014 (EUR 596.8 million). On the other hand, a dividend of EUR 223.1 million was distributed to the shareholders of LEG Immobilien AG.

Mainly as a result of issuing a new corporate bond in two tranches, one of EUR 500.0 million, another of EUR 300.0 million, non-current financing liabilities rose by EUR 743.5 million against the previous year, whereas current financing liabilities declined by EUR 287.7 million.

Driven primarily by net income from the measurement of investment property, deferred tax liabilities (shown under other non-current liabilities) rose by EUR 230.7 million to EUR 1,331.3 million.

The key factor impacting the decline of other current liabilities by EUR 152.1 million was derecognising the derivatives of the convertible bond issued in 2014 and converted in 2019.

Net asset value (NAV)

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

LEG reported basic EPRA NAV of EUR 7,330.3 million as at 31 December 2019 (31 December 2018: EUR 6,112.5 million). The effects of the possible conversion of the convertible bond and other equity interests are shown by an additional calculation of diluted EPRA NAV. The adjustment for goodwill effects and the effects of a simulated actual conversion result into a pro forma NAV of EUR 7,273.0 million or EUR 105.39 per share as at 31 December 2019 (31 December 2018: EUR 6,428.0 million or EUR 93.40 per share).

T29

EPRA-NAV

€ million	31.12.2019 basic	31.12.2019 Effect of exercise of convertibles/options	31.12.2019 diluted	31.12.2018 basic	31.12.2018 Effect of exercise of convertibles/options	31.12.2018 diluted
Equity attributable to shareholders of the parent company	**5,909.9**	**–**	**5,909.9**	**4,757.6**	**–**	**4,757.6**
Non-controlling interests	**24.0**	**–**	**24.0**	**26.3**	**–**	**26.3**
Equity	**5,933.9**	**–**	**5,933.9**	**4,783.9**	**–**	**4,783.9**
Effect of exercise of options, convertibles and other equity interests	–	26.1	26.1	–	553.9	553.9
NAV	**5,909.9**	**26.1**	**5,936.0**	**4,757.6**	**553.9**	**5,311.5**
Fair value measurement of derivative financial instruments	84.0	–	84.0	222.2	–	222.2
Deferred taxes on WFA loans and derivatives	6.2	–	6.2	13.1	–	13.1
Deferred taxes on investment property	1,386.0	–	1,386.0	1,151.7	–	1,151.7
Goodwill resulting from deferred taxes on EPRA adjustments	– 55.8	–	– 55.8	– 32.1	–	– 32.1
EPRA NAV	**7,330.3**	**26.1**	**7,356.4**	**6,112.5**	**553.9**	**6,666.4**
Number of shares	**69,009,836**	**0**	**69,009,836**	**63,188,185**	**5,635,729**	**68,823,914**
EPRA NAV per share (€)	**106.22**	**–**	**106.60**	**96.73**	**–**	**96.86**
Goodwill resulting from synergies	– 83.4	–	– 83.4	– 52.7	–	– 52.7
Adjusted EPRA NAV (w/o effects from goodwill)	**7,246.9**	**26.1**	**7,273.0**	**6,059.8**	**553.9**	**6,613.7**
Number of shares	**69,009,836**	**0**	**69,009,836**	**63,188,185**	**5,635,729**	**68,823,914**
Adjusted EPRA NAV per share (€)	**105.01**	**–**	**105.39**	**95.90**	**–**	**96.10**
Effects from a simulated executed conversion	–	–	–	– 185.7	–	– 185.7
PRO FORMA NAV (w/o effects from goodwill), after simulated executed conversion	**7,246.9**	**26.1**	**7,273.0**	**5,874.1**	**553.9**	**6,428.0**
PRO FORMA NAV per share (€)	**105.01**	**–**	**105.39**	**92.96**	**–**	**93.40**
EPRA NAV	**7,330.3**	**26.1**	**7,356.4**	**6,112.5**	**553.9**	**6,666.4**
Fair value measurement of derivative financial instruments	– 84.0	–	– 84.0	– 222.2	–	– 222.2
Deferred taxes on WFA loans and derivatives	– 6.2	–	– 6.2	– 13.1	–	– 13.1
Deferred taxes on investment property	– 1,386.0	–	– 1,386.0	– 1,151.7	–	– 1,151.7
Goodwill resulting from deferred taxes on EPRA adjustments	55.8	–	55.8	32.1	–	32.1
Fair value measurement of financing liabilities	– 333.5	–	– 333.5	– 149.1	–	– 149.1
Valuation uplift resulting from FV measurement financing liabilities	130.1	–	130.1	104.0	–	104.0
EPRA NNNAV	**5,706.5**	**26.1**	**5,732.6**	**4,712.5**	**553.9**	**5,266.4**
Number of shares	**69,009,836**	**0**	**69,009,836**	**63,188,185**	**5,635,729**	**68,823,914**
EPRA-NNNAV per share (€)	**82.69**	**–**	**83.07**	**74.58**	**–**	**76.52**

Loan-to-value ratio (LTV)

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

As a result of the transition to IFRS 16, financial liabilities are corrected by lease liabilities, whose corresponding right of use is not reported as investment properties.

The loan-to-value ratio (LTV) is therefore EUR 37.7 % (31 December 2018: 40.7 %).

T30

Loan-to-value ratio

€ million	**31.12.2019**	31.12.2018
Financing liabilities	5,053.9	4,598.1
Without lease liabilities IFRS16 (not leasehold)	31.8	–
Less cash and cash equivalents	451.2	233.6
Net financing liabilities	**4,570.9**	**4,364.5**
Investment properties	12,031.1	10,709.0
Assets held for sale	25.2	20.3
Prepayments for investment properties	53.5	–
Real estate assets	**12,109.8**	**10,729.3**
Loan-to-value ratio (LTV) in %	**37.7**	**40.7**

Financial position

Financing structure

The Group generated a net profit for the period of EUR 821.1 million (previous year: EUR 847.1 million). Equity amounted to EUR 5,933.9 million (previous year: EUR 4,783.9 million). This corresponds to an equity ratio of 45.9 % (previous year: 42.7 %).

A dividend of EUR 223.1 million (EUR 3.53 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 2019 is as follows:

T31

Statement of cash flows

€ million	**01.01. – 31.12.2019**	01.01. – 31.12.2018
Cash flow from operating activities	318.2	288.6
Cash flow from investing activities	– 489.1	– 431.9
Cash flow from financing activities	388.5	91.5
Change in cash and cash equivalents	**217.6**	**– 51.8**

Higher proceeds from net cold rent had a positive effect on the development of cash flow from operating activities. Cash flow from operating activities therefore increased by EUR 29.6 million year-on-year to EUR 318.2 million.

Acquisitions and modernisation work on the existing property portfolio resulted in payments of EUR 371.4 million reported in cash flow from investing activities. The was offset by cash proceeds from property disposals of EUR 195.2 million and the cash payment for the purchase of shares in three fully consolidated companies of EUR 248.7 million.

Repayments of EUR 659.4 million, issues of private placement of EUR 100 million, a corporate bond in two tranches, one of EUR 500 million, the other of EUR 300 million as well as the utilisation of new loans and money market papers of EUR 406.2 million, largely driven by the restructuring of the financing portfolio, impacted cash flow from financing activities. The dividend distribution in 2019 of EUR 223.1 million was EUR 31.0 million higher than in the previous year (EUR 192.1 million).

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

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

Risks, Opportunities and Forecast Report

Risk and Opportunity Report

Governance, risk & compliance

Standard process for integrated management of corporate risks

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

Accounting process/internal control system

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

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 ICS is constantly being expanded and optimised to meet business process requirements. Various processes have been revised or supplemented in the context of regular updates. Process descriptions are reviewed by the Legal, Internal Audit, Compliance, Governance Bodies and Human Resources department for appropriate ICS audit steps and the prevention of incentives to non-compliance prior to their implementation.

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

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

LEG has a clear and transparent organisational, control and management structure. The duties within the accounting process are clearly defined and explicit roles are assigned. Self-control, the dual/multiple control principle, the separation of functions and analytical audit procedures are central elements in the accounting process.

- The accounting process is aided by standard software in that IT authorisations reflect the authorities described in the guidelines and thereby guarantee system control.
- There is integrated central accounting and central controlling for the key Group companies.
- The uniform Group-wide accounting, account assignment and measurement criteria are regularly examined and updated.

Compliance management

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

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

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

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

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system with the external ombudsman. Permanent benchmarking against other compliance management systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance management system. In 2019, the compliance management system of LEG was certificated by the Institute for Corporate Governance in the German Real Estate Industry.

Compliance is assigned to the Legal, Internal Audit, Compliance, Governance Bodies and Human Resources department, whose head reports directly to the CEO of LEG.

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

Risk management

LEG Immobilien AG has a Group-wide risk management system. A key component of LEG's risk management system is the Group-wide risk early warning system. This system is supported by the R2C IT tool.

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

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

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

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

The risk inventory reports derived from the risk inventories also include a so-called trend radar for an early recording of potential strategic chances. The foundation for all reporting are 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 gross liquidity impact and probability of occurrence. The benchmark for assessing and classifying the potential impact is the effect on both liquidity and profit and loss of the business planning. The individual risk assessment is therefore always based on the corresponding change in liquidity or profit and loss of 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 (Y-axis). A risk assessment model with four groups has also been established for probability of occurrence (X-axis).

The individual categories for liquidity impact are as follows:
Gross impact

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

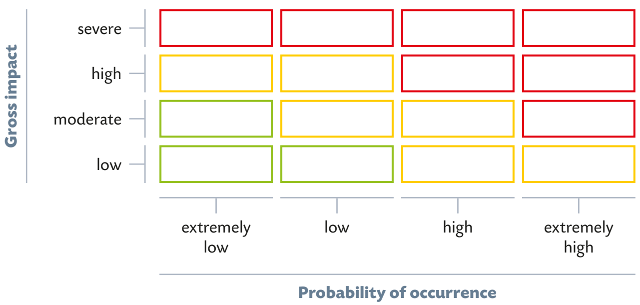
The categories for the probability of occurrence are as follows:
Probability of occurence

a) Extremely high: 50 % ≤ x < 100 %
b) High: 20 % ≤ x < 50 %
c) Low: 5 % ≤ x < 20 %
d) Extremly low: 0 % < x < 5 %

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

G10

Risk matrix



Overall Assessment of Risks and Opportunities

General risks such as macroeconomic risks and market risks are first discussed below. Continuing from the overall risks, those that the company feels are particularly relevant have been described together with the measures used to control them. Overall, the Management Board does not expect any risks to the continued existence of the LEG Group as a whole for the 2020 and 2021 financial years.

Risk Reporting

Macroeconomic risks

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

The German economy is currently experiencing a slowdown. Global uncertainties regarding the outcome and consequences of the US trade conflict and Brexit curbed economic growth in Germany and the euro area and prolonged the phase of weak exports that had lasted since 2018. In the automotive and engineering industries, the challenges were further intensified by technological change. Against this backdrop, economists' forecasts for Germany are cautious. Nonetheless, domestic economic forces are expected to remain intact, thus avoiding a recession.

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

When it comes to the megatrend of digitisation, employment and income opportunities are likely to outweigh the risks in the long run. Digitalisation also presents opportunities for LEG's business model with regard to increasing efficiency. The megatrend of climate change may give rise to both risks (e. g. CO_2 charge) and opportunities (modernisation of portfolio) for LEG's business activities. Further opportunities lie in a significant acceleration of the global and European economy and in immigration and the resulting increase in demand for affordable housing on the German property market.

Market risks

The majority of LEG's property portfolio is located in Germany's most populous state, North Rhine-Westphalia. Through strategic acquisitions, LEG has also integrated properties in Lower Saxony and Rhineland-Palatinate in its portfolio. The geographical proximity to our properties in NRW and Lower Saxony also makes acquisition opportunities in Hesse seem attractive. If lucrative acquisitions can also be implemented outside the core target markets of NRW, Lower Saxony, Rhineland-Palatinate and Hesse, LEG will also take these opportunities in line with its strategic orientation.

The key factors behind demand for housing and thus the attractiveness of the residential property market include a positive trend in population and household numbers. In this regard, there are some significant differences between the markets where LEG operates, with a particularly noticeable gap between urban and rural locations. However, the price trend in recent years has made housing in economically attractive metropolitan areas much less affordable, which is increasingly leading to shifts to alternative locations and thus higher demand for housing in neighbouring cities and districts near these metropolitan areas. Thanks to LEG's broad market presence, a possible flattening trend in prices in the metropolitan areas can be offset against a stronger price trend in more rural regions.

LEG assesses the future risks and opportunities of market development using a wide range of internal and external data sources. These include publications by the state statistical offices and the Federal Statistical Office as well as independently prepared market reports, for example from public-sector sources, brokers, banks, professional associations and service providers. Using the Group data warehouse, internally available information is prepared for decision-makers in a timely manner and made available for analysis. Operational risks and opportunities for the company's own portfolio can thus be made transparent and alternatives for action can be derived accordingly.

Although the number of new refugees arriving has long passed the peak of 2015, the housing situation is still influenced by immigration. The long-term effects on the housing market are still not entirely foreseeable, especially since domestic policy decisions on residence and asylum rights have a strong influence here that is difficult to predict. As things currently stand, however, only a significant increase in the number of refugees returning to their home countries or a significantly stricter asylum policy would lead to an unexpected decline in demand for housing, which is not currently foreseeable.

In its property management processes and investment decisions, LEG makes a forecast regarding the future market development at the location, with an increased probability of investment in the case of a positive forecast. Conversely, negative forecasts for a market segment increase the probability of divestment, particularly in locations where the potential for value increases seems to have been exhausted already.

Property asset valuation risks

The regular valuation of the property portfolio is based on various individual parameters that are derived from independent market and forecast data where possible. Key parameters include the discount rate, market rents and their development, macro- and micro-location qualities, standard market levels of structural vacancies, forecasts for the inflation rate and official indicative land values.

Assessments of the technical condition of properties and the weighting of various parameters with an influence on valuation are not entirely free of subjective judgements. In particular, forward-looking factors are by nature subject to a risk of increased uncertainty and thus of incorrect assessments, even though the basis data is gathered carefully. Any incorrect assessments made may have either a positive or a negative effect on the value of the property portfolio.

The time delay between the actual transaction and the publication of the statistics based on the transactions gives rise to another risk for property valuation. While an analysis of historical value development may imply an increase in market prices, the market may in fact be experiencing consolidation or even a downward trend already. The resulting risk of incorrect valuations is reduced by permanently monitoring the market.

Investment in property as an asset class is in competition with alternative forms of investment such as equities, commodities and bonds. As such, a relative increase in the attractiveness of other forms of investment (e.g. due to yield or liquidity advantages) may have a negative impact on demand and thus on the development of property prices. The more suddenly and unexpectedly demand for other forms of investment increases, the stronger the effects are likely to be, meaning that – depending on the strength of correlation with the price trend – this may result in both significant rises and significant declines in prices.

Like other sectors, the property industry is governed by a cycle that plays out over a longer period due to the long investment periods involved. The dynamic price developments of the past therefore cannot automatically be projected into the future. By continuously monitoring the property and capital markets, LEG aims to assess and take advantage of the short, medium and long-term risks and opportunities arising from the cycle.

Risk categorisation

LEG classifies the identified risks based on main risk categories and risk subcategories. Risks that are assigned to the "red" assessment range in the next two years (2020/2021) and would have an effect of usually over EUR 2 million if they occurred are considered particularly relevant. The risk categories in which such risks exist are shown in the table below. If the identified risks are eligible for provisions and have an 50 % minimum probability of occurrence ("extremely high"), a provision was recognised as at 31 December.

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Risk categories

Main risk category	Subcategory	Gross impact	Probability of occurrence
General business risks	No relevant risks		
Compliance risks	Other	Severe	Extremely low
Property risks	Commercial management	Significant	Extremely high
	Technical management	Significant	Extremely high
	Portfolio management	Severe	Low
Finance	Breach of covenants	Severe	Extremely low
	Prolongation risk	Severe	Extremely low
Accounting	No relevant risks		
Tax risks	Taxes/levies	Severe	Low
Human resources risks	Other	Significant	Extremely high
Legal risks	Liability/insurance risks	Severe	Extremely low
	Changes in law	Significant	Extremely high
	Data protection (GDPR)	Severe	Extremely low
Information and communication risks	No relevant risks		
Project business risks	No relevant risks		

Barring a few exceptions, the risk situation is the same as in the previous year. New risks with potentially high relevance are particularly based on legislative changes under discussion by politicians. The new risks mainly relate to the following topic areas:

With regard to property risks (portfolio management), one risk with a low probability of occurrence was added (incorrect assessment of market developments, particularly in the case of modernisation measures).

In the area of human resources, a risk in relation to the retroactive payment of contributions to the social security fund was added (ongoing court proceedings).

In the category of legal risks, two risks from potential legislative changes have been added. These are the issue of introducing a rent cap for the whole of Germany or for NRW (like that introduced in Berlin, for example) and the potential consequences of the climate protection package (particularly the possibility to pass on the CO_2 allocation). Both these risks have high risk potential.

The risk from project business that was reported in the previous year no longer exists.

In addition to the table, the main risk categories of our business model, based on the risk inventory of 31 December 2019, are explained in more detail below regardless of their valuation levels.

General business risks

General business risks and the subcategories of communication and image and business organisation (e.g. organisation and processes) are not a relevant main risk category according to the LEG risk assessment matrix.

Compliance risks

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

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

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

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

Property risks

Modernisation/maintenance risks

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

Changes in the legal and regulatory framework relating to energy requirements, the duty to implement safety precautions and tenant protection may affect the economic viability of modernisation and maintenance measures or necessitate measures that were not previously planned. The monetary impact of changes in requirements or laws can usually be calculated in advance on account of the corresponding implementation periods, and are included in LEG's regular business planning.

If unforeseeable maintenance measures become necessary at short notice (this particularly relates to measures to ensure continued safety), these immediately undergo a risk assessment and suitable measures are initiated to minimise the risks. Possible causes of such events include bad weather, negative effects of mining or other natural hazards.

In the case of modernisation work with an effect on rents, typical project deadline and cost risks may lead to a deterioration in profitability compared to planning. This particularly applies if conditions on the local housing market mean that unscheduled cost increases cannot be passed on to the tenants without overburdening their ability to pay. By contrast, time delays generally only lead to rent increases being implemented later than planned. Objections on the grounds of hardship or formal errors in implementing rent increases may also mean that the rent increases that can be implemented are lower than planned. All these risks are taken into account by way of intensive project controlling.

Property management

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

Property management risks of a technical nature arise from the quality and structure of the buildings. Buildings from certain years or of certain types may be more likely to have associated defects and therefore require increased maintenance. Particularly in the case of portfolio acquisitions, there is an increased risk that structural deficiencies may only become noticeable over time, despite careful technical inspection during the acquisition process. Contractual relationships that may have to be assumed in the context of acquisitions may give rise to costs that have worse price/performance conditions compared to the contracts originally negotiated by LEG.

Over time, contracts already in place for technical maintenance may also prove to have a worse price/performance ratio compared to current market conditions. Building regulations such as safety precautions and fire protection must be followed and may entail increased staff and maintenance costs. To minimise the risks involved in technical management, LEG continues to focus its efforts on pooling and standardising services, optimising processes and integrated service management.

There are commercial property management risks in relation to poor implementation of rent adjustments. In particular, post-refurbishment rent adjustments are sometimes challenged by the public and may meet with resistance by tenants. Particularly in the case of portfolio acquisitions in which modernisation-related rent increases were implemented by the former owner, there is a risk that the agreed rent increases may not meet LEG's requirements. Despite careful review during the acquisition process, there may therefore be increased legal disputes with the resulting risks in the form of rent reduction claims.

Portfolio risks

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

Portfolio risks are assessed on an ongoing basis to identify events with a potential impact on the properties' intrinsic value and derive actions to be taken. Technical risks relate particularly to unexpected and unforeseeable deterioration in the fabric of building **> Maintenance risks.** Regular property and safety inspections by qualified personnel serve to minimise risks here.

On the demand side, a negative development in economic conditions may materialise as a risk. Changes in what people want when it comes to housing may also result in a decline in demand for housing in particular markets or just for the specific product offered by LEG. These changes in demand are monitored by LEG in the context of its management processes, and suitable measures are taken if foreseeable permanent changes occur.

With regard to the supply of rental housing, a tougher competitive situation, for example driven by substantial new construction, may result in housing of a similar or better quality being offered at comparable or lower prices, putting pressure on LEG's vacancy situation. Continuous monitoring of the competition based on freely available market data and LEG's local management expertise reduces the associated risks on the supply side.

Risk of rent default

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

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

Acquisition risks

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

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

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

Sales risks

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

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

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

Finance risks

Rollover risk

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

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

In 2019, the rollover risk for the years ahead was reduced significantly as a result of early refinancing and the full conversion of the 2014/2021 convertible bond into equity. The next round of long-term follow-up financing therefore is not scheduled until the 2023 financial year.

LEG occasionally uses commercial papers to meet short-term financing requirements. In the currently capital market environment, the risk that commercial papers cannot be placed or prolonged is considered low.

In addition, LEG has sufficient cash and cash equivalents and credit facilities at its disposal to minimise refinancing risks.

Breach of financial covenants

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

Failure to comply with contractually agreed financial covenants can lead to the risk of extraordinary termination of financing agreements. Such termination may also entitle other creditors to terminate their loan agreements early under the contractually agreed cross-default regulations. A breach of financing agreements can also lead to higher interest payments, special repayments or the realisation of the collateral provided. In the event of a failure to comply with covenants, this may result in access to the pledged rental accounts of the respective financing portfolios, which could negatively impact the LEG Group's cash flow generation.

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

Stability of bank partners (banking market)

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

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

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

Liquidity risk

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

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

Changes in interest rates

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

Interest rate risk essentially relates to financing agreements for which there is no long-term interest agreement. Around 90 % of LEG's liabilities are hedged on a long-term basis predominantly by using fixed interest rates and interest rate swaps. Hence there are no significant foreseeable interest rate risks.

Debt risk/rating downgrade

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

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

Accounting

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

Risks relating to accounting may firstly result from a failure to comply with statutory regulations, which could lead to incorrect annual, consolidated or quarterly financial statements. Secondly, violations of other regulatory requirements such as the German Corporate Governance Code, disclosure obligations or operating cash inflows or outflows e.g., due to a qualified audit opinion or record of denial, reputational damage or negative effects on the share price, for example. 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 and duties

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

Tax risks from external audits can achieve a relevant magnitude if they occur. The external audit currently in progress at the LEG Group covers the years from 2009 to 2012 and from 2013 to 2016.

In principle, the tax regulations on a ceiling for interest expenses provide for a tax deduction from net interest expenses (i.e. after deduction of interest income) up to the level of 30 % of taxable EBITDA. In the past, LEG also claimed an additional interest deduction using the "escape clause". This provides for unlimited interest deductibility if the Group's equity ratio is not significantly higher than the equity ratio of the individual operation.

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

Before acquiring shares in property companies, LEG transferred properties to these companies. In the opinion of the tax authorities, a higher assessment base for real estate transfer tax could be applicable to the entire transaction.

Based on guidelines from the German Federal Constitutional Court, a fundamental property tax reform was discussed and has now been adopted. In this context the previous legally stipulated possibility to pass on property tax to tenants was not changed.

The amendments to the German Real Estate Transfer Tax Act proposed by the federal states and the government coalition, particularly the addition of the new notional state of affairs of the sale at corporations in the event of a direct or indirect change in ownership entail a risk of real estate transfer tax being incurred with existing structures.

Human resources risks

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

SOKA-BAU is the joint name for the holiday and wage compensation fund and the supplementary health insurance for the construction industry. The construction companies pay contributions to SOKA-BAU in an amount determined by collective agreements or by the German Act to Secure the Social Funds Procedure (SokaSiG). These contributions are determined such that they can finance SOKA-BAU's payments. SOKA-BAU demands corresponding contributions from TSP GmbH (51 % LEG subsidiary) and has initiated legal proceedings.

Human resources management faces major strategic challenges in irreversible megatrends such as demographic and technological change and the changing values of younger generations. LEG will meet these challenges mainly with life phase-oriented HR development and with measures and activities geared to the needs of current and future staff that contribute to LEG's employer branding and the work-life balance of its employees. LEG's HR management lastingly ensures its attractiveness and appeal as an employer while also allowing these aspects to evolve constantly. In 2019, LEG attained the coveted "career and family" seal. The introduction of an company agreement on flexible working hours was also completed.

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

Legal risks

Liability/insurance risks

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

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

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

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

Contract risks

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

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

Legal disputes

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

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

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

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

Other legal risks, legislative changes and data protection

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

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

In connection with the German federal government's increased efforts to protect the climate, a climate protection package was adopted in 2019. Among other measures, this provides for pricing the building sector's carbon dioxide emissions from 2021 onwards. The aim is to increase the property sector's efforts to reduce emissions on the basis of an increase in the price per tonne of carbon dioxide over time. At the time this risk report was prepared, it was not clear to what extent the additional costs would be transferable to tenants. As such, there is a risk that LEG as a company may have to bear a significant portion of the additional costs for carbon dioxide emissions itself. The German federal government plans to increase incentives to save energy by means of additional subsidy programmes, so there is an opportunity to minimise risks here by utilising the subsidies.

Due to the tight housing market and the associated rent increases in recent years, the Berlin Senate has resolved on a rent cap. Starting from 2022, rents can increase by up to 1.3 % per year, provided they remain below the permitted upper limit. Modernisation work and its allocation to rents is generally permitted as long as the rent does not increase by more than EUR 1 per square metre and the upper limit for rents is not exceeded by more than EUR 1.

LEG does not have any properties in Berlin and therefore is not affected by the rent cap. Nonetheless, the law could have a signalling effect and could also be introduced in other federal states in this form or in a modified form as a result of the current public debate on affordability of rents. In September 2019, the SPD parliamentary group in NRW called for nationwide rent controls (maximum increase by the general price increase and price cap for new contracts). However, the NRW state government has clearly indicated its opposition to such instruments. The CDU/CSU and FDP parliamentary groups have also announced a constitutional challenge to the Berlin rent cap.

Both risks depend on political decisions and are therefore difficult for LEG to influence. Only through work in property industry associations and dialogue with politicians and parties can LEG attempt to exercise political influence.

Information and communication risks

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

The core application at LEG Immobilien AG is SAP/BlueEagle. This ERP system is supplemented with specialist applications in cases where added value can be created. The company operates a hybrid cloud whose internal components are designed redundantly and whose external components are regulated via service agreements. The security of the IT systems is ensured using industry-standard best practices and is regularly reviewed by specialist companies. Identified security gaps are eliminated immediately.

Project business risks

Commercial/technical project business risks from former commercial development

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

The risks subject to a review of the contractually agreed conditions without a legal discussion include reviews of subsidies that may have been claimed excessively. For example, such cases may occur due to the implementation of a type of building use (e.g. of higher value) other than that contractually intended. To prevent such risks from occurring, records and files are analysed and assessed in close coordination with the institution conducting the review (e.g. funding agencies). Provisions of a sufficient amount have already been recognised for the transactions currently ongoing.

Commercial/technical project business risks from new construction activities

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

In future, new construction activities will increasingly be pursued for LEG's own portfolio; these will be consistently controlled and monitored to avoid risks. Furthermore, construction services are procured from renowned project developers subject to strict economic criteria.

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

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

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

Other project business risks

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

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

Report on Opportunities

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

With around 134,000 residential units as at 31 December 2019, 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. The purchase of around 55,300 residential units in total have been notarised and mostly transferred to LEG's portfolio since its IPO. Around 5,600 of these residential units were acquired in 2019, of which around 2,000 are only to be transferred to LEG in 2020. Further acquisitions are planned. The regional focus is on the existing core markets with the highest synergy potential. Acquisition activities are being expanded particularly in geographical regions near the borders of NRW, and increasingly also in identified core markets in Bremen, Lower Saxony and Hesse. By way of these strategic acquisitions, LEG also manages to expand its property management in these regions.

LEG 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. The like-for-like occupancy rate can also be increased as an additional opportunity.

Forecast

LEG achieved the key targets that it set itself for the 2019 financial year. The following section compares the key performance indicators achieved against the forecast from the previous year.

FFO (funds from operations) is the key financial earnings indicator in the property sector. For the 2019 financial year, LEG had defined FFO I in a range between EUR 338 million and EUR 344 million. It actually achieved FFO of EUR 341.3 million, a figure in the middle of its forecast range.

The quarterly report published as at 30 September 2019 set the forecast for like-for-like rental growth per square metre at around 3.0 % (previous forecast: 3.0 % to 3.2 %). The like-for-like rental growth actually achieved was 2.9 % and within the range of expectation.

In terms of like-for-like vacancies, a slight decline was initially assumed for 2019 and a stable trend was assumed from November 2019 onwards. As at the end of 2019, the like-for-like vacancy rate was 3.0 %, slightly below the previous year's level (3.1 %).

LEG invests in its property portfolio to preserve its quality and to leverage opportunities for greater energy efficiency and appreciation. Around EUR 30 to EUR 32 per square metre was intended to be invested in maintenance and modernisation in the 2019 financial year, with value-adding investments eligible for capitalisation accounting for most of this figure. At EUR 33.9 per square metre, actual investment was slightly above the forecast range. The capitalisation rate was 70.0 %.

Value-adding acquisitions are a key element of LEG's growth strategy. LEG acquired a total of around 5,700 residential units in the 2019 financial year.

LEG bases its business model on a strong statement of financial position. A maximum loan-to-value ratio of 45 % was initially set for the 2019 financial year. This maximum was reduced to 43 % during the year as a result of the appreciation of the portfolio as at 30 June 2019. This target was held with an LTV of 37.7 % as at the end of the reporting period.

As anticipated, net asset value (NAV) was positively influenced by rent development and the increase of valuation multiples. EPRA NAV (not including goodwill) per share thus increased by 12.8 % to EUR 105.39 per share in the reporting year.

Outlook 2020

Economic research institutes are forecasting moderate economic growth in 2020. According to Deutsche Bundesbank estimates, real gross domestic product in Germany is set to rise by 0.6 %.

LEG continues to rate the fundamental conditions for its business model as positive overall. On this basis, its forecast for the key financial and operating performance indicators for the 2020 financial year is as follows:

FFO I

The quarterly report published as at 30 September 2019 raised the forecast for FFO I following the company's acquisitions and refinancing activities. Since then, LEG has been projecting FFO I for the 2020 financial year in the range of EUR 370 million to EUR 380 million (previously: EUR 356 million to EUR 364 million). These figures do not yet take into account the effects of future acquisitions.

The following development is forecast for other relevant key performance indicators:

Rent

LEG is forecasting like-for-like rental growth of around 2.8 % for 2020. The outlook for like-for-like rental growth in the 2020 financial year was adjusted in the quarterly report published as at 30 September 2019 (previously: 3.2 % to 3.4 %). This firstly takes into account the planned refinancing of loans, resulting in rent cuts for the respective subsidised residential units. Secondly, the voluntary partly waiving of rent increases, mainly in connection with modernisation work, was also taken into account in calculations.

Vacancy rate
A slight like-for-like decline in the vacancy rate is anticipated in 2020.

Investment
Around EUR 31 to EUR 33 per square metre is to be invested in maintenance and modernisation work in the 2020 financial year, with value-adding investments eligible for capitalisation again accounting for most of this figure.

Acquisitions
Assuming corresponding availability on the market, LEG is striving to acquire around 7,000 units in the 2020 financial year.

LTV
A maximum LTV of 43 % has been determined to ensure a defensive long-term risk profile.

NAV
LEG assumes that the projected positive rental performance will also be reflected in a positive development in the value of 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 by 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 plans to distribute 70 % 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 (as amended 7 February 2017) and the requirements of the Handelsgesetzbuch (HGB – German Commercial Code).

Preliminary Remarks

Thomas Hegel resigned from the Management Board of LEG Immobilien AG at the end of the Annual General Meeting on 29 May 2019. The contract signed with Mr Hegel provided for his appointment to continue until 31 January 2021. The Supervisory Board and Mr Hegel reached a mutual understanding on the early termination of his work on the Management Board as at 29 May 2019.

Eckhard Schultz resigned from the Management Board of LEG Immobilien AG as at 31 August 2019. The contract signed with Mr Schultz provided for his appointment to continue until 31 January 2021. The Supervisory Board and Mr Schultz reached a mutual understanding on the early termination of his work on the Management Board as at 31 August 2019.

The Supervisory Board appointed Lars von Lackum as the company's Chief Executive Officer (CEO) as at 1 June 2019. Following the resignation of Eckhard Schultz, Lars von Lackum also assumed responsibility for the role of CFO in addition to his previous duties.

Dr Volker Wiegel was appointed as a member of the Management Board of the company and its Chief Operating Officer (COO) as at 1 June 2019.

Remuneration System of the Management Board

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

The remuneration of the members of the Management Board consist of a fixed component (basic remuneration), a variable component with a short-term incentive function (STI) and a variable component with a mid to long-term incentive function (LTI) for the whole of the 2019 financial year.

The respective contractually agreed annual targets for the individual remuneration components developed as follows:

T33

Remuneration components

€ thousand	Lars von Lackum CEO	Dr Volker Wiegel COO	Thomas Hegel CEO	Eckhard Schultz CFO
Fixed remuneration	628 (468)[1]	433	628	568
One-year variable remuneration (STI)	374 (312)[1]	288	374	359
Multi-year variable remuneration	449 (364)[1]	345	449	419
Total remuneration	**1,451 (1,144)[1]**	**1,066**	**1,451**	**1,346**

[1] according to Management Board contract until 31 May 2019

The maximum total remuneration granted in return for the work of the respective member of the Management Board for one financial year – including basic remuneration, STI, LTI (plus full utilisation of possible adjustments), special remuneration for acquisitions and benefits – is EUR 2,826 thousand for Lars von Lackum, EUR 2,120 thousand for Dr Volker Wiegel, EUR 3,055 thousand for Thomas Hegel and EUR 2,808 thousand for Eckhard Schultz. 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.

By way of amendment of his Management Board contract of 19 March 2019, Lars von Lackum's basic remuneration was increased from EUR 468 thousand p.a. to EUR 628 thousand p.a. effective 1 June 2019.

The Management Board receives contractually agreed benefits in addition to basic remuneration. 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 20 thousand for Lars von Lackum and EUR 15 thousand for the other members of the Management Board.

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

The monetary value arising from private use is capped at EUR 80 thousand per member of the Management Board. 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 expenses.

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 financial year applies. The benchmarks are based on the forecasts given to the capital market at the beginning of the year. When calculating the target figures, this is neutralised on an ongoing basis by effects from material transactions.

If the Supervisory Board does not resolve a business plan for the respective financial year, the four sub-targets for the purposes of the STI are defined by the Supervisory Board at its discretion (section 315 of the Bürgerliches Gesetzbuch (BGB – German Civil Code)) by 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 basic rent;
- net rental and lease income;
- adjusted EBITDA;
- funds from operations I per share (weighted average number of shares in the financial year).

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

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

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

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

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, amend the STI by up to 20 % in either direction at its discretion.

By way of amendment of his Management Board contract of 19 March 2019, Lars von Lackum's short-term incentive (STI) was increased from EUR 312 thousand p.a. to EUR 374 thousand p.a. effective 1 June 2019.

However, the STI to be calculated and possibly adjusted for the respective financial year is capped at EUR 453 thousand for Lars von Lackum, EUR 374 thousand for Dr Volker Wiegel, EUR 486 thousand for Thomas Hegel and EUR 467 thousand for Eckhard Schultz.

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

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

In addition to an STI, the members of the Management Board are entitled to an LTI based on the company's long-term development. The four-year LTI is newly awarded for each financial 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 to the relevant index, EPRA Germany.

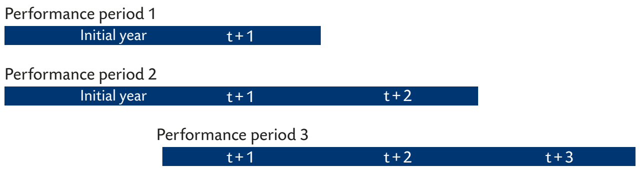
The target LTI is spread over the following three performance periods in three equal tranches:

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

Visually, the performance periods are distributed as follows:

G11

Performance periods



Initial year = relevant financial year

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

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

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

After the end of each performance period, the level of target attainment for the two performance targets during the respective performance period is determined by the Supervisory Board following the approval of the consolidated financial statements for the last financial year and the resulting amounts for the tranche are calculated. Target attainment is determined separately for each performance target and each tranche. However, netting may be performed within a tranche – providing this is mathematically possible – with the shortfall for one performance target being offset by the excess for the other performance target. There is no netting 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 cannot exceed a third of the target LTI, even if the overall level of target attainment for both performance targets is in excess of 100 %.

In the event of extraordinary developments, after the end of the respective performance period the Supervisory Board can adjust the levels of attainment calculated for Lars von Lackum and Volker Wiegel and adjust the LTI downwards by up to 20 % at its discretion. As a result, the amount allotted to each tranche can be undershot by one third of the target LTI. On the basis of a discretionary decision, the LTI for Thomas Hegel and Eckhard Schultz can be adjusted 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.

By way of amendment of his Management Board contract of 19 March 2019, Lars von Lackum's long-term incentive (LTI) was increased from EUR 364 thousand p.a. to EUR 449 thousand p.a. effective 1 June 2019.

The STI calculated and possibly adjusted for the performance period is capped at EUR 150 thousand for Lars von Lackum, EUR 115 thousand for Dr Volker Wiegel, EUR 150 thousand for Thomas Hegel and EUR 140 thousand for Eckhard Schultz. The total LTI available for a financial year is capped at EUR 414 thousand for Lars von Lackum, EUR 345 thousand for Dr Volker Wiegel, EUR 449 thousand for Thomas Hegel and EUR 419 thousand for Eckhard Schultz.

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

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

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

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

T34

Target corridors LTI

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

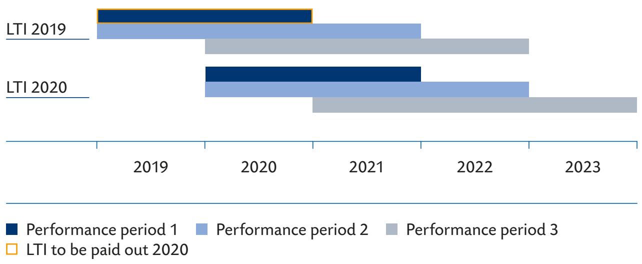
The LTI tranches that would have been due for payment from 2020 to 2022 under the LTI 2016/3, LTI 2017/2 to 3 and LTI 2018/1 to 3 programmes have been settled early in the cancellation agreements with Thomas Hegel and Eckhard Schultz.

By way of Supervisory Board resolution dated 7 November 2019, the 2020 LTI programme was granted for Lars von Lackum and Volker Wiegel (grant date).

The following LTI programmes are outstanding or are to be paid out from 2021:

G12

Performance periods LTI



Total Remuneration of the Management Board in 2019

The annual benefits granted to the Management Board in accordance with the German Corporate Governance Code are as follows for the 2019 financial year: **> table T35**

On the basis of the assessment of the attainment of performance hurdles, as at 31 December 2019 staff costs for the LTI programmes of EUR 3.4 million (2018: EUR 1.7 million) were recognised in line with IFRS and EUR 122 thousand (2018: EUR 0.7 million) in line with HGB. In accordance with IFRS and HGB, EUR 110 thousand of this related to Lars von Lackum and EUR 12 thousand to Volker Wiegel. For Thomas Hegel, EUR 1.7 million (2018: EUR 0.4 million) was recognised in line with IFRS and EUR 0.2 million (2018: EUR 0.4 million) in line with HGB. For Eckhard Schultz, EUR 1.6 million (2018: EUR 0.3 million) was recognised in line with IFRS and EUR 0.3 million (2018: EUR 0.3 million) in line with HGB. The differences in the amounts of staff costs under IFRS and HGB essentially result from the different classification of severance pay for Thomas Hegel and Eckhard Schultz.

T35

Remuneration and benefits earned

	Lars von Lackum[1] CEO				Dr Volker Wiegel[2] COO				Thomas Hegel[3] CEO				Eckhard Schultz[4] CFO			
€ thousand	**2019**	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018	**2019[1]**	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018
Fixed remuneration	561	561	561	0	433	433	433	0	628	628	628	628	568	568	568	568
Additional benefits	41	41	41	0	24	24	24	0	28	28	28	49	22	22	22	23
Total fixed remuneration components	**602**	**602**	**602**	**0**	**457**	**457**	**457**	**0**	**656**	**656**	**656**	**677**	**590**	**590**	**590**	**591**
One-year variable remuneration (STI)	348	0	453	0	288	0	374	0	374	0	486	374	359	0	467	359
Total multi-year variable remuneration (LTI)	204	0	414	0	0	0	0	0	251	0	449	220	235	0	419	205
LTI 2018 (until 2021)	0	0	0	0	0	0	0	0	0	0	0	220	0	0	0	205
LTI 2019 (until 2022)	204	0	414	0	0	0	0	0	251	0	449	0	235	0	419	0
Total variable remuneration components	**552**	**0**	**866**	**0**	**288**	**0**	**374**	**0**	**625**	**0**	**935**	**594**	**594**	**0**	**886**	**564**
Total fixed and variable remuneration components	**1,154**	**602**	**1,468**	**0**	**745**	**457**	**831**	**0**	**1,281**	**656**	**1,591**	**1,271**	**1,184**	**590**	**1,476**	**1,155**
Pension costs	107	107	107		0	0	0		0	0	0	0	27	27	27	27
Total remuneration	**1,261**	**709**	**1,575**	**0**	**745**	**457**	**831**	**0**	**1,281**	**656**	**1,591**	**1,271**	**1,211**	**617**	**1,503**	**1,182**

[1] Start of Management Board function as at 1 January 2019. Due to the amendment of the contract as at 1 June 2019 average values are shown.
[2] Start of Management Board function as at 1 June 2019.
[3] Termination of Management Board function as at 29 May 2019.
[4] Termination of Management Board function as at 31 August 2019.

The amounts paid to the members of the Management Board in line with the German Corporate Governance Code were:

T36

Remuneration and benefits paid

€ thousand	Lars von Lackum[1] CEO		Dr Volker Wiegel[2] COO		Thomas Hegel[3] CEO		Eckhard Schultz[4] CFO	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fixed remuneration	561	0	253	0	628	628	568	568
Additional benefits	41	0	14	0	28	49	22	23
Total fixed remuneration components	**602**	**0**	**267**	**0**	**656**	**677**	**590**	**591**
One-year variable remuneration (STI)	0	0	0	0	524	374	594	359
Multi-year variable remuneration (LTI)	0	0	0	0	591	388	648	363
LTI 2014 (until 2017)	0	0	0	0	0	100	0	93
LTI 2015 (until 2018)	0	0	0	0	141	142	131	133
LTI 2016 (until 2019)	0	0	0	0	195	146	212	137
LTI 2017 (until 2019)	0	0	0	0	194	0	211	0
LTI 2018 (until 2020)	0	0	0	0	62	0	93	0
LTI 2019 (until 2021)	0	0	0	0	0	0	0	0
Total variable remuneration components	**0**	**0**	**0**	**0**	**1,115**	**762**	**1,242**	**722**
Total fixed and variable remuneration components	**602**	**0**	**267**	**0**	**1,772**	**1,439**	**1,832**	**1,313**
Pension costs	107	–	–	–	0	0	27	27
Total remuneration	**709**	**0**	**267**	**0**	**1,772**	**1,439**	**1,859**	**1,340**

[1] Start of Management Board function as at 1 January 2019.
[2] Start of Management Board function as at 1 June 2019.
[3] Termination of Management Board function as at 29 May 2019.
[4] Termination of Management Board function as at 31 August 2019.

The total remuneration of the Management Board in 2019 in accordance with the German Commercial Code:

T37

Total remuneration

	Lars von Lackum[2] CEO		Dr Volker Wiegel[3] COO		Thomas Hegel[4] CEO		Eckhard Schultz[5] CFO		**Total**	
€ thousand	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fixed remuneration	561	0	253	0	628	628	568	568	2,010	1,196
Additional benefits	41	0	14	0	28	49	22	23	105	72
Total fixed remuneration components	**602**	**0**	**267**	**0**	**656**	**677**	**590**	**591**	**2,115**	**1,268**
One-year variable remuneration (STI)	387	0	188	0	155	393	239	377	969	770
Multi-year variable remuneration (LTI)[1,]	439[6]	0	181	0	0	251	0	235	620	486
Total variable remuneration components	**826**	**0**	**368**	**0**	**155**	**644**	**239**	**612**	**1,588**	**1,256**
Total remuneration	**1,428**	**0**	**635**	**0**	**811**	**1,321**	**829**	**1,203**	**3,703**	**2,524**

[1] Includes LTI for 2020.
[2] Start of Management Board function as at 1 January 2019.
[3] Start of Management Board function as at 1 June 2019.
[4] Termination of Management Board function as at 29 May 2019.
[5] Termination of Management Board function as at 31 August 2019.
[6] The amount includes the LTI programm 2019 granted in the previous year 2018 which will only be considered in 2019 due to the start of the Management Board function as at 1 January 2019.

As at 31 December 2019 (31 December 2018), Lars von Lackum owned 1,000 (0) shares in LEG Immobilien AG, Thomas Hegel owned 54,602 as at the time of his resignation on 29 May 2019 (54,602) and Eckhard Schultz owned 50,938 as at the time of his resignation on 31 August 2019 (50,938).

No loans or advances were granted or extended to the members of the Management Board in the 2019 financial year.

Termination benefits

Thomas Hegel's mandate as the CEO of LEG Immobilien AG was ended by mutual arrangement as at 29 May 2019. In lieu of fixed remuneration, Thomas Hegel receives severance payment of EUR 1,047 thousand for the early termination of his contract, which was due to run until the end of January 2021. Claims to additional benefits have been settled at EUR 69 thousand. Target achievement for the STI for the period from 30 May 2019 to December 2019 and the STI for 2020 and STI 2021 has been set at an amount of EUR 624 thousand for 100 % achievement. The claims under LTI programmes have been settled at EUR 1.5 million in total. The LTI programmes that would have been paid out in 2020 were settled on the basis of a notional achievement rate of 100 %. A discount of 2.5 % has been deducted for tranches that would have been paid out in 2021, one of 5 % for tranches that would have been paid out in 2022, 7.5 % for those that would have been paid out in 2023, 10 % for those that would have been paid out in 2024 and 12.5 % for the tranche intended for payment in 2025.

The Management Board mandate of Eckhard Schultz was ended by mutual arrangement as at 31 August 2019. In lieu of fixed remuneration, Eckhard Schultz receives severance payment of EUR 805 thousand for the early termination of his contract, which was due to run until the end of January 2021. Claims to additional benefits have been settled at EUR 32 thousand. LEG will pay his company pension until 31 January 2021. The pension cost amounts to EUR 22 thousand. Target achievement for the STI for the period from September 2019 to December 2019 and the STI for 2020 and STI 2021 has been set at an amount of EUR 508 thousand for 100 % achievement. The claims under LTI programmes have been settled at EUR 1.3 million in total. The LTI programmes that would have been paid out in 2020 were settled on the basis of a notional achievement rate of 100 %. A discount of 2.5 % has been deducted for tranches that would have been paid out in 2021, one of 5 % for tranches that would have been paid out in 2022, 7.5 % for those that would have been paid out in 2023, 10 % for those that would have been paid out in 2024 and 12.5 % for the tranche intended for payment in 2025.

Retirement benefits

Company pension scheme
Lars von Lackum has a vested occupational pension via a provident fund that was assumed by LEG Immobilien AG. Gross annual premiums of EUR 100,000 are paid. The benefits will be paid in 2042 as a one-time, lump-sum payment of EUR 2,325,000.00.

Furthermore, Lars von Lackum was granted an employer-financed pension commitment 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. Gross annual premiums of EUR 7,447 Euro were paid. In case of death, the provident fund will make a one-time, lump-sum capital payment to the respective dependents. When Lars von Lackum reaches retirement age in 2042, the payments will take the form of a non-contributory monthly pension or a one-time, lump-sum payment of EUR 173,845.

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 27,477.20 were paid. In 2013, the Supervisory Board resolved to establish an employer-financed pension commitment for Eckhard Schultz 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 634.08.

No provisions were recognised for Lars von Lackum or Volker Wiegel as at 31 December 2019.

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 financial year and, where applicable, the anticipated total remuneration for the current financial year (as recommended in item 4.2.3. of the German Corporate Governance Code).

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

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

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

Death benefits
If a Management Board member dies during the term of the employment agreement, the remuneration plus STI and LTI (including deferred tranches) will be settled up until the end of the agreement as a result of the member's death and paid out to the member's heirs in accordance with the provisions of the agreement. Furthermore, the member's widow and any children under 25, as joint beneficiaries, will 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 is 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 financial year. Supervisory Board members who are only on the Supervisory Board or a committee of the Supervisory Board for part of the financial year receive corresponding remuneration on a pro rata basis for this financial year.

The following regulation has applied to Supervisory Board remuneration in accordance with Article 8.10 of the Articles of Association of LEG Immobilien AG since the Annual General Meeting on 17 May 2018: The members of the Supervisory Board receive fixed annual remuneration of EUR 72 thousand. The chairperson of the Supervisory Board receives 2.5 times this amount, the deputy chairperson receives 1.25 times this amount. Members of a Supervisory Board committee receive additional fixed annual remuneration of EUR 20 thousand; the chairperson of the committee receives double this amount. No remuneration is paid to the members or chairperson of the Nomination Committee. Each member receives an additional attendance fee of EUR 2 thousand for each Supervisory Board or committee meeting held in person.

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

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Breakdown of Supervisory Board remuneration – Remuneration paid or to be paid to the members of the Supervisory Board for the 2019 financial year

in €	Supervisory Board		Audit Committee		Executive Committee		Nomination Committee	**Total per member**
Name of member	Remuneration	Attendance Fee	Remuneration	Attendance Fee	Remuneration	Attendance Fee		**2019 (net)**
Michael Zimmer	180,000 Chairman	10,000			40,000 Chairman	8,000	0 Chairman	**238,000**
Stefan Jütte	90,000 Deputy Chairman	12,000	40,000 Chairman	8,000	20,000 Deputy Chairman	8,000	0 Deputy Chairman	**178,000**
Dr Johannes Ludewig	72,000 Member	12,000			20,000	8,000	0	**112,000**
Dr Jochen Scharpe	72,000 Member	10,000	20,000 Deputy Chairman	8,000	0 Substitute member	0	0	**110,000**
Natalie Hayday	72,000 Member	12,000	20,000 Member	8,000				**112,000**
Dr Claus Nolting	72,000 Member	12,000						**84,000**
Total	**558,000**	**68,000**	**80,000**	**24,000**	**80,000**	**24,000**	**0**	**834,000**

The total remuneration of members of the Supervisory Board of LEG Immobilien AG in accordance with IFRS and HGB amounted to EUR 0.8 million in 2019 (2018: EUR 0.7 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2019 financial year.

Corporate governance declaration in accordance with sections 289f and 315d HGB

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

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 2019:

"The Management Board and Supervisory Board of LEG Immobilien AG (the „Company") hereby declare that the Company has complied with the recommendations of the „Government Commission for the German Corporate Governance Code" (version dated 7 February 2017, "Code") published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 without exception since submitting its last declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) in November 2018.

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 2019

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 through acquisition and new construction. 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, employees 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.

Foundations

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.

The foundation "Your Home Helps" was also established in the reporting year. It is endowed with EUR 16 million and aims to make lasting improvements to the tenants' social situation through direct assistance. To this end, the foundation will employ its own social managers to identify people with a wide range of problems in LEG's properties and beyond at an early stage and to address and solve these problems with the support of specialist charitable and non-profit organisations. Top priorities include help for children living in challenging circumstances, day-to-day living assistance for seniors, support services for families, and advice and support with illnesses such as addiction.

Customer Advisory Council

An LEG Customer Advisory Council with an important advisory role was also established in the reporting year. The Customer Advisory Council allows for more intensive customer dialogue and offers the possibility to find out more about the tenants' opinions, concerns and needs through a direct discussion. In this way, the Customer Advisory Council supports LEG's continuous efforts to increase customer satisfaction further. There are also regular meetings between the LEG Management Board and customers.

Corporate Governance Code of the German Real Estate Industry Association

LEG Immobilien AG is a member of the Corporate Governance Institute of the German Real Estate Industry Association (ICG). At **www.icg-institut.de**, the ICG has published a "Corporate Governance Code of the German Real Estate Industry" (as at July 2017, "ICGK"), which supplements the German Corporate Governance Code with industry-specific recommendations and is intended to bring about greater transparency, an improved reputation and stronger competitiveness of the property sector. The Supervisory Board and the Management Board of LEG Immobilien AG are committed to the key goals and principles of the Corporate Governance Institute of the German Real Estate Industry Association and agree that - with the exception of the provisions of item 5.3.2i - the recommendations of the ICGK should also be complied with.

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

Compliance

LEG Immobilien AG employs a compliance management system that bundles measurements directed at the compliance of legal provisions and internal policies especially with regard to the areas of anti-corruption, competition, taxes, product, data protection, and capital market. The compliance management system is targeted at preventing law and rule violations in the previously mentioned areas, to detect such violations and to sanction them. In this context, LEG Immobilien AG has appointed a compliance officer and an experienced external ombudsman as an additional point of contact. A whistle-blower system gives employees and third parties the opportunity to give notices on law violations in a protected environment. The compliance management system is described at > **Risk and Opportunity Report.**

Description of the working methods of the Management Board and the Supervisory Board and the composition and working methods of their committees

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

The Management Board

The Management Board manages LEG Immobilien AG on its own responsibility in accordance with the provisions of law, the Articles of Association and the Rules of Procedure for the Management Board. The Rules of Procedure for the Management Board were most recently amended by the Supervisory Board on 27 August 2019. Among other things, these stipulate that certain transactions of particular significance require the prior approval of the Supervisory Board or one of its committees. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all issues of strategy, planning, business performance, the risk situation, risk management and compliance relevant to the company. The Management Board performs its management duties as a collective body. Regardless of their overall responsibility, the individual members of the Management Board manage the departments assigned to them in the context of Management Board resolutions on their own responsibility. The allocation of duties among the members of the Management Board is based on the assignment plan.

The Supervisory Board

The Supervisory Board monitors and advises the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. Its duties and rights are determined by the legal provisions, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board most recently amended the Rules of Procedure at its ordinary meeting on 25 March 2014. The Supervisory Board regularly reviews the efficiency of its work, most recently in the reporting year. The review was performed in the form of a self-evaluation using an anonymous questionnaire.

Cooperation between the Management Board and the Supervisory Board

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

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

Committees of the Supervisory Board

The Supervisory Board had three committees in the 2019 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, the appointment of the Chairman of the Management Board;
- The conclusion, amendment and termination of employment agreements with members of the Management Board;

- The structure of the remuneration system for the Management Board, including the key contract elements and the total compensation paid to the individual members of the Management Board; and
- The acquisition of property portfolios.

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

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

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

Nomination Committee

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

Audit Committee

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

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

Detailed information on the work of the Supervisory Board and the composition of the committees of the Supervisory Board in the 2019 financial year can be found on > Report of the Supervisory Board.

Composition of the Boards

Targets for the participation of women

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

Supervisory Board

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

Management Board

At its meeting on 5 March 2020, the Supervisory Board plans to define a goal for the share of women on the Management Board of 33.3 % and the deadline for achieving this goal as 31 December 2023.

Management levels below Management Board

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

Diversity Concept of the Supervisory Board

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

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

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

Diversity Concept of the Management Board

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

- Each member of the Management Board must have not only his own qualification, but also must be suitable for the company in its concrete situation and in view of future tasks.
- The Rules of Procedure for the Management Board specify that members of the Management Board should generally be not older than 65.
- The members of the Management Board should supplement each other in respect to competence and knowledge. Here the Management Board should be composed in a way that the Board as a whole not only has entrepreneurial and managerial competence but also knowledge of property management and extensive expertise concerning regional housing markets.
- Moreover, the composition of the Management Board should allow it to have financial markets expertise as well as social competence, e. g. in the area of social and neighbourhood management.
- At its meeting on 5 March 2020, the Supervisory Board plans to define a goal for the share of women on the Management Board of 33.3 %.

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

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

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

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

Takeover Disclosures in Accordance with Section 315a HGB

Composition of issued capital

There are 69,009,836 no-par-value ordinary shares admitted to trading on the Frankfurt Stock Exchange. The shares are registered shares and do not differ in terms of the securitised rights and obligations.

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

Restrictions relating to voting rights and transfers of shares

There are no further restrictions on voting rights, the exercise of voting rights or the transfer of shares beyond the statutory provisions.

Interests in capital with shares of voting rights exceeding 10 %

As of 31 December 2019, Massachusetts Financial Services Company (Boston, Massachusetts, USA) held 10.46 % of the share capital of the company, and hence also of the voting rights. On 15 October 2019, Massachusetts Financial Services Company notified LEG according to section 33 et seq. of the German Securities Trading Act (WpHG). LEG published this notification on 16 October 2019.

Bearers of shares with special rights granting powers of control

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

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

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

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

Authority of the Management Board to issue shares

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

The share capital is contingently increased by up to EUR 31,594,092.00 through the issue of up to 31,594,092 new shares (Contingent Capital 2013/2017/2018). The contingent capital increase is subject to the proviso that the conditions for the conversion rights issued in 2014 or 2017 or in future are exercised and serviced by way of the corresponding utilisation of contingent capital. In connection with the conversion of the 2014/2021 convertible bond, the contingent capital was used in the amount of 5,821,651 shares.

Authorisation on the acquisition and utilisation of treasury shares

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

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

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

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

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

The statutory provisions also apply.

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

In August 2017, LEG Immobilien AG issued a convertible bond with a volume of EUR 400 million. In the event of a change of control, the terms and conditions of the convertible bond 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 bond.

In January 2017, LEG Immobilien AG issued a corporate bond with a total nominal amount of EUR 500 million. Under the bond conditions, the creditors have the right to demand the full or partial redemption or, at LEG Immobilien AG's discretion, the purchase of their bonds in the event of a change of control.

LEG Immobilien AG also issued two corporate bonds with a total nominal amount of EUR 300 million and EUR 500 million respectively under the debt issuance programme issued in November 2019. The creditors of these bonds have the right to demand the redemption of their bonds if a change of control occurs and the credit rating deteriorates within 90 days of the change of control.

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.

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.

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

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

Dusseldorf, 4 March 2020

LEG Immobilien AG, Dusseldorf
The Management Board

LARS VON LACKUM **DR VOLKER WIEGEL**

4 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

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Assets

€ million	Notes	31.12.2019	31.12.2018
Non-current assets		**12,353.8**	**10,884.9**
Investment properties	E.1	12,031.1	10,709.0
Prepayments on investment properties		53.5	–
Property, plant and equipment	E.2	83.7	62.5
Intangible assets	E.3	140.6	85.3
Investments in associates		9.9	9.7
Other financial assets	E.4	23.2	10.8
Receivables and other assets	E.5	0.3	0.2
Deferred tax assets	E.13	11.5	7.4
Current assets		**540.8**	**289.0**
Real estate inventory and other inventory		4.6	6.1
Receivables and other assets	E.5	81.8	47.5
Income tax receivables	E.13	3.2	1.8
Cash and cash equivalents	E.6	451.2	233.6
Assets held for sale	E.7	**25.2**	**20.3**
Total assets		**12,919.8**	**11,194.2**

Equity and liabilities

€ million	Notes	31.12.2019	31.12.2018
Equity	E.8	**5,933.9**	**4,783.9**
Share capital		69.0	63.2
Capital reserves		1,202.2	611.2
Cumulative other reserves		4,638.7	4,083.2
Equity attributable to shareholders of the parent company		5,909.9	4,757.6
Non-controlling interests		24.0	26.3
Non-current liabilities		**6,511.0**	**5,495.6**
Pension provisions	E.9	164.9	142.4
Other provisions	E.10	5.2	4.5
Financing liabilities	E.11	4,856.8	4,113.3
Other liabilities	E.12	152.8	134.8
Deferred tax liabilities	E.13	1,331.3	1,100.6
Current liabilities		**474.9**	**914.7**
Pension provisions	E.9	7.0	6.9
Other provisions	E.10	20.2	17.8
Provisions for taxes		0.2	0.2
Financing liabilities	E.11	197.1	484.8
Other liabilities	E.12	239.2	396.0
Tax liabilities		11.2	9.0
Total equity and liabilities		**12,919.8**	**11,194.2**

Consolidated statement of comprehensive income

T40

€ million	Notes	01.01.–31.12.2019	01.01.–31.12.2018
Net rental and lease income	F.2	**435.0**	**418.6**
Rental and lease income		809.4	766.9
Cost of sales in connection with rental lease income		–374.4	–348.3
Net income from the disposal of investment properties	F.3	**–1.3**	**–0.9**
Income from the disposal of investment properties		195.3	29.5
Carrying amount of the disposal of investment properties		–195.5	–29.5
Cost of sales in connection with disposed investment properties		–1.1	–0.9
Net income from the remeasurement of investment properties	F.4	**923.4**	**800.9**
Net income from the disposal of real estate inventory		**–0.8**	**–1.6**
Income from the real estate inventory disposed of		2.9	1.6
Carrying amount of the real estate inventory disposed of		–1.4	–0.8
Costs of sales of the real estate inventory disposed of		–2.3	–2.4
Income from other services	F.5	**3.3**	**5.3**
Income from other services		9.5	11.7
Expenses in connection with other services		–6.2	–6.4
Administrative and other expenses	F.6	**–66.1**	**–44.8**
Other income		**0.5**	**0.8**
Operating earnings		**1,294.0**	**1,178.3**
Interest income		0.5	0.8
Interest expenses	F.7	–153.1	–109.3
Net income from investment securities and other equity investments		5.8	1.0
Net income from associates		0.2	0.2
Net income from the fair value measurement of derivatives	F.8	–96.1	25.4
Earnings before income taxes		**1,051.3**	**1,096.4**
Income taxes	F.9	–230.2	–249.3
Net profit or loss for the period		**821.1**	**847.1**

€ million	Notes	01.01.–31.12.2019	01.01.–31.12.2018
Change in amounts recognised directly in equity		**–32.0**	**11.2**
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		**–14.1**	**8.6**
Change in unrealised gains/(losses)		–17.4	11.3
Income taxes on amounts recognised directly in equity		3.3	–2.7
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		**–17.9**	**2.6**
Change in unrealised gains/losses		–25.3	3.6
Income taxes on amounts recognised directly in equity		7.4	–1.0
Total comprehensive income		**789.1**	**858.3**
Net profit or loss for the period attributable to:			
Non-controlling interests		3.9	4.1
Parent shareholders		817.2	843.0
Total comprehensive income attributable to:			
Non-controlling interests		3.9	4.1
Parent shareholders		785.2	854.1
Earnings per share (basic) in €	F.10	**12.61**	**13.34**
Earnings per share (diluted) in €	F.10	**12.52**	**11.47**

See > section E.8 of the notes.

Statement of changes in consolidated equity

T41

€ million	Share capital	Capital reserves	Cumulative other reserves: Revenue reserves	Cumulative other reserves: Actuarial gains and losses from the measurement of pension obligations	Cumulative other reserves: Fair value adjustment of interest derivatives in hedges	Equity attributable to shareholders of the Group	Non controlling interests	Consolidated equity
As of 01.01.2018	**63.2**	**611.2**	**3,472.3**	**–37.6**	**–21.7**	**4,087.4**	**25.0**	**4,112.4**
First-time adoption IFRS 9	–	–	7.8	–	–	7.8	–	7.8
As of 01.01.2018 angepasst	**63.2**	**611.2**	**3,480.1**	**–37.6**	**–21.7**	**4,095.2**	**25.0**	**4,120.2**
Net profit or loss for the period	–	–	843.0	–	–	843.0	4.1	847.1
Other comprehensive income (OCI)	–	–	–	2.5	8.6	11.1	0.0	11.1
Total comprehensive income	**–**	**–**	**843.0**	**2.5**	**8.6**	**854.1**	**4.1**	**858.2**
Change in consolidated companies	–	–	–	–	–	–	1.0	1.0
Capital increase	–	–	–	–	–	–	–	–
Other	–	–	1.8	–	–	1.8	0.7	2.5
Withdrawals from reserves	–	–	–	–	–	–	–3.5	–3.5
Change in put options	–	–	–1.4	–	–	–1.4	–	–1.4
Distributions	–	–	–192.1	–	–	–192.1	–1.0	–193.1
As of 31.12.2018	**63.2**	**611.2**	**4,131.4**	**–35.1**	**–13.1**	**4,757.6**	**26.3**	**4,783.9**
As of 01.01.2019	**63.2**	**611.2**	**4,131.4**	**–35.1**	**–13.1**	**4,757.6**	**26.3**	**4,783.9**
First-time adoption IFRS 9	–	–	–4.6	–	–	–4.6	–	–4.6
Stand zum 01.01.2019 angepasst	**63.2**	**611.2**	**4,126.8**	**–35.1**	**–13.1**	**4,753.0**	**26.3**	**4,779.3**
Net profit or loss for the period	–	–	817.2	–	–	817.2	3.9	821.1
Other comprehensive income (OCI)	–	–	–	–17.9	–14.1	–32.0	0.0	–32.0
Total comprehensive income	**–**	**–**	**817.2**	**–17.9**	**–14.1**	**785.2**	**3.9**	**789.1**
Change in consolidated companies	–	–	–	–	–	–	6.8	6.8
Capital increase	5.8	591.0	–	–	–	596.8	–	596.8
Other	–	–	–22.2	–	–	–22.2	–4.6	–26.8
Withdrawals from reserves	–	–	–	–	–	–	–2.5	–2.5
Change in put options	–	–	20.2	–	–	20.2	–	20.2
Distributions	–	–	–223.1	–	–	–223.1	–5.9	–229.0
As of 31.12.2019	**69.0**	**1.202.2**	**4,718.9**	**–53.0**	**–27.2**	**5,909.9**	**24.0**	**5,933.9**

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

Consolidated statement of cash flows

T42

€ million	01.01.–31.12.2019	01.01.–31.12.2018
Operating earnings	**1,294.0**	**1,178.3**
Depreciation on property, plant and equipment and amortisation on intangible assets	16.2	9.8
(Gains)/Losses from the remeasurement of investment properties	–923.4	–800.9
(Gains)/Losses from the disposal of assets held for sale and investment properties	0.2	0.1
(Gains)/losses from the disposal of intangible assets and property, plant and equipment	0.0	0.0
(Decrease)/Increase in pension provisions and other non-current provisions	–2.1	–7.6
Other non-cash income and expenses	5.6	8.0
(Decrease)/Increase in receivables, inventories and other assets	9.0	–4.6
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions	7.5	–14.2
Interest paid	–79.0	–77.7
Interest received	0.3	0.5
Received income from investments	3.1	2.6
Income taxes received	0.4	2.0
Income taxes paid	–13.6	–7.7
Net cash from/(used in) operating activities	**318.2**	**288.6**
Cash flow from investing activities		
Investments in investment properties	–371.4	–451.8
Proceeds from disposals of non-current assets held for sale and investment properties	195.2	26.9
Investments in intangible assets and property, plant and equipment	–9.7	–7.0
Acquisition of shares in consolidated companies	–248.7	–
Change of cash investment in securities	–54.5	–
Net cash from/(used in) investing activities	**–489.1**	**–431.9**
Cash flow from financing activities		
Borrowing of bank loans	406.2	752.7
Repayment of bank loans	–659.4	–592.4
Repayment of lease liabilities	–10.7	–4.6
Issue of registered bonds	100.0	130.0
Issue of corporate bonds	800.0	–
Acquisition of minority shares	–17,5	–
Distribution to minorities	–7.7	–2.8
Distribution to shareholders	–223.1	–192.1
Other proceeds	0.7	0.7
Net cash from/(used in) financing activities	**388.5**	**91.5**
Change in cash and cash equivalents	**217.6**	**–51.8**
Cash and cash equivalents at beginning of period	233.6	285.4
Cash and cash equivalents at end of period	**451.2**	**233.6**
Composition of cash and cash equivalents		
Cash in hand, bank balances	451.2	233.6
Cash and cash equivalents at end of period	**451.2**	**233.6**

See > section G of the notes.

Notes

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

1 | Basic information on the Group

LEG Immobilien AG, Dusseldorf (hereinafter: "LEG Immo"), and its subsidiaries, particularly also the indirectly held LEG NRW GmbH, Dusseldorf (hereinafter: "LEG") and the subsidiaries of the latter company (hereinafter referred to collectively as the "LEG Group") are among the largest residential companies in Germany. The LEG Group held a portfolio of 135,303 residential and commercial units on 31 December 2019 (134,958 units excluding IFRS 5 objects).

The LEG Group engages in three core activities as an integrated property company: the optimisation of the core business, the expansion of the value chain as well as the portfolio strengthening.

These consolidated financial statements were approved for publication by LEG Immo's Management Board on 9 March 2020.

2 | Consolidated financial statements

The consolidated financial statements of the LEG Immo as at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as applicable in the European Union. The consolidated financial statements have been prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, concerning the application of international accounting standards in conjunction with section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the additional provisions of commercial law.

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

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

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

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

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

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

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

B. New accounting standards

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

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

T43

Published IFRS and IFRIC that are not yet effective

	Content	Effective for reporting periods beginning on
Amendments to standards		
Various standards	"Amendments to References to the Conceptual Framework in IFRS Standards"	01.01.2020
IFRS 3	"Amendments to business combinations"	01.01.2020[1]
IAS 1/IAS 8	"Amendments regarding the definition of material"	01.01.2020
IFRS 9/IAS 39/IFRS 7	"Interest Rate Benchmark Reform"	01.01.2020

[1] (not yet endorsed)

LEG Immo does not adopt new standards early.

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

T44

Published IFRS and IFRIC effective for the first time

	Content	Effective for reporting periods beginning on
New standards		
IFRS 16	"Leases"	01.01.2019
IFRIC 23	"Uncertainty over income tax treatments"	01.01.2019
Amendments to standards		
IFRS 9	"Prepayment features with negative compensation"	01.01.2019
IAS 28	"Long-term interests in associates and Joint Ventures"	01.01.2019
IAS 19	"Plan Amendment, Curtailment or Settlement"	01.01.2019
Various standards	"Improvements and amendments of selected IFRS Standards 2015 – 2017"	01.01.2019

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

IFRS 16

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

Due to the initial application of IFRS 16 for the asset classes leaseholds, rented land and buildings, vehicle leases as well as peripheral devices (printers, photocopiers, multi-functional devices and other IT equipment) as at 1 January 2019, rights of use in lease assets of EUR 48.5 million were recognised as were lease liabilities of EUR 55.6 million. In the reporting period, as a result of the transition to IFRS 16 depreciation and amortisation expenses rose by EUR 4.6 million and interest expenses by 1.5 million.

Further notes are shown in sections > D.6, E.1, E.2, E.11, F.2, F.6 and F.7.

IFRS 23
In respect to provisions for taxes the application of IFRIC 23 did not result in any changes against the previous year.

C. Basis of consolidation and consolidation methods

1 | Consolidation methods

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

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

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

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

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

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

A list of LEG Immo's shareholdings can be found on > page 151.

2 | Changes in the Group

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

T45

Number of consolidated subsidiaries

	2019	2018
As of 01.01.	**67**	**66**
Additions	4	2
Disposals	– 5	– 1
As of 31.12.	**66**	**67**

On 19 August 2019 VitalServicePlus GmbH was retroactively merged with LEG Holding GmbH as at 1 January 2019.

On entry in the commercial register on 15 and 16 January 2019, after the transfer to LEG Beteiligungsverwaltungsgesellschaft mbH, LEG Grundbesitzerwerb 1 GmbH & Co. KG, LEG Grundbesitzerwerb 2 GmbH & Co. KG and LEG Grundbesitzerwerb 3 GmbH & Co. KG were extinguished.

Moreover, on entry in the commercial register on 19 August 2019 LEG Wohnen Service GmbH was retroactively merged with LEG Wohnen NRW GmbH as at 1 January 2019.

On 10 October 2019, LEG LWS GmbH was founded and included in the basis of consolidation of the LEG Group.

As part of buying a portfolio, Baum Erste Wohnimmobilien Bremen GmbH, Baum Zweite Wohnimmobilien Bremen GmbH and Baum Wohnimmobilien Oldenburg GmbH were acquired and included in consolidation for the first time as at 31 December 2019 (please see > section C.3).

b) Associates

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

T46

Number of associates accounted for using the equity method

	2019	2018
As of 01.01.	**2**	**2**
Additions/Disposals	0	0
As of 31.12.	**2**	**2**

3 | Business combinations

On 8 November 2019, to enhance its portfolio LEG Immo signed a purchase agreement with the Baum Group on assuming a 94.9 % stake in each of the companies Baum Erste Wohnimmobilien Bremen GmbH, Baum Zweite Wohnimmobilien Bremen GmbH and Baum Wohnimmobilien Oldenburg GmbH.

Five employees were assumed in the scope of the transaction. After antitrust approval, the transaction was closed on 31 December 2019.

As at 31 December 2019, the acquisition of these companies was treated as a business combination within the meaning of IFRS 3 as material business processes were acquired.

The provisional consideration for the business combination is made up as follows:

T47

Provisional consideration

€ million	31.12.2019 provisional
Cash consideration (net)	254.2
Contingent reimbursement	–
Total consideration	**254.2**

If the contractually agreed expected rent is not achieved on the basis of modernisation measures, the price to be paid by LEG Immo is reduced by the difference between the annual in-place rent and the expected rent multiplied by a company-specific factor. If the in-place rent of the overall portfolio exceeds EUR 10.3 million, there is no reduction in the purchase price. LEG Immo does not anticipate a reduction in the purchase price.

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

T48

Provisional purchase price allocation

€ million	31.12.2019 provisional
Investment properties	231.1
Property, plant and equipment – finance lease	0.2
Deferred tax assets	0.0
Receivables from operating costs	3.9
Receivables and other assets	0.8
Cash and cash equivalents	2.1
Total assets	**238.1**
Other financing liabilities	0.1
Deferred tax liabilities	23.8
Other provisions	0.0
Receivables from operating costs	4.1
Other liabilities	3.5
Total liabilities	**31.5**
Net assets at fair value	206.6
Non-controlling interests	6.8
Net assets at fair value without controlling interests	199.8
Consideration	**254.2**
Goodwill	**54.4**

The fair value of the rent receivables acquired totals EUR 0.1 million. The gross amount of the rent receivables due amounts to EUR 0.2 million with an impairment of EUR 0.1 million recognised at the time of acquisition.

Non-controlling interests in the acquired companies are recognised at the level of their share in the acquired net assets.

The transaction costs of the business combination amount to EUR 1.1 million and essentially includes legal and consulting expenses as well as real estate transfer tax.

If the portfolio had been acquired as at 1 January 2019, additional revenues from facility management of approximately EUR 13.6 million would have been generated in the reporting period.

The synergies anticipated from the business combination relate primarily to cost advantages and additional revenue potential.

For tax purposes, the goodwill is not deductible.

In addition to the total consideration, due to the currently incomplete existing data basis the purchase price allocation is provisional in respect to the following items:

- Investment properties
- Operating costs
- Accounting for leases
- Deferred tax expenses
- Contingent liabilities.

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 2019 (IFRS 12.10 et seq.) can be found on > page 151.

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.

TSP-TechnikServicePlus GmbH is the only subsidiary with significant non-controlling interests as at 31 December 2019.

EUR 1.8 million of consolidated net profit relates to the significant non-controlling interests of TSP-TechnikServicePlus GmbH. The carrying amount in the Group recognised for the non-controlling interests in TSP-TechnikServicePlus GmbH as at 31 December 2019 was EUR 0 million on account of the obligation to pay a guaranteed dividend.

LEG Immo acquired the remaining 49 % stake in EnergieServicePlus GmbH, paid a consideration of EUR 17.5 million as the end of the 2019 financial year. The carrying amount of the non-controlling interests in Energie-ServicePlus GmbH of EUR 5.4 million was reclassified to LEG Immo equity. In 2019, EUR 1.2 million of consolidated net profit related to the significant non-controlling interests of EnergieServicePlus GmbH.

T49

Statement of financial position TSP

	TSP-TechnikServicePlus GmbH	
€ million	**2019**	2018
Non-current		
Assets	4.8	0.4
Liabilities	– 3.4	0.0
Non-current net assets	1.4	0.4
Current		
Assets	11.4	11.2
Liabilities	– 10.9	– 8.8
Non-current net assets	0.5	2.4

T50

Statement of profit or loss TSP

	TSP-TechnikServicePlus GmbH	
€ million	**2019**	2018
Revenue/other operating income	50.1	46.4
Earnings before income taxes	– 1.4	– 0.9
Net profit from continued operations	– 2.3	– 1.3
Net profit	– 2.3	– 1.3
Total comprehensive income	**– 2.3**	**– 1.3**
Attributable to: interests without significant influence	1.8	1.8
Paid dividend to owner without significant interest	1.8	1.8

T51

Statement of cash flows TSP

	TSP-TechnikServicePlus GmbH	
€ million	**2019**	2018
Net cash from/used in		
Operating activities	2.3	3.1
Investing activities	– 0.3	– 0.1
Financing activities	– 1.7	0.0
Change in cash and cash equivalents	**0.3**	**3.0**

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:

T52

Investments in associates

€ million	**2019**	2018
Recognition	9.9	9.7
Total comprehensive income	0.2	0.2

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

T53

Material associates

€ million	Share of capital in %	Equity	Result
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	21.4	0.6
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3.6	0.0

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.

T54

Statement of financial position (associates)

€ million	Kommunale Haus und Wohnen GmbH 31.12.2019	Kommunale Haus und Wohnen GmbH 31.12.2018	Beckumer Wohnungsgesellschaft mbH 31.12.2019	Beckumer Wohnungsgesellschaft mbH 31.12.2018	Total 31.12.2019	Total 31.12.2018
Non-current assets	44.3	44.3	7.1	7.1	51.4	51.4
Current assets	1.9	1.9	0.6	0.6	2.5	2.5
Cash and cash equivalents	1.2	1.2	0.8	0.8	2.0	2.0
Other assets	–	–	–	–	–	–
Non-current liabilities	20.3	20.3	4.1	4.1	24.4	24.4
Current liabilities	5.7	5.7	0.8	0.8	6.5	6.5
Financing liabilities	–	–	–	–	–	–
Non-financing liabilities	–	–	–	–	–	–
Net assets	**21.4**	**21.4**	**3.6**	**3.6**	**25.0**	**25.0**

T55

Statement of profit or loss (associates)

€ million	Kommunale Haus und Wohnen GmbH 2019	Kommunale Haus und Wohnen GmbH 2018	Beckumer Wohnungsgesellschaft mbH 2019	Beckumer Wohnungsgesellschaft mbH 2018	Total 2019	Total 2018
Revenue	6.3	6.3	1.3	1.3	7.6	7.6
Depreciation	1.1	1.1	0.3	0.3	1.4	1.4
Interest income	–	–	–	–	–	–
Interest expense	0.4	0.4	0.1	0.1	0.5	0.5
Income taxes	–	–	–	–	–	–
Net profit from continued operations	0.6	0.6	0.0	0.0	0.6	0.6
Net profit after taxes from discontinued operations	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**0.6**	**0.6**	**0.0**	**0.0**	**0.6**	**0.6**

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

T56

Reconciliation (associates)

	Kommunale Haus und Wohnen GmbH		Beckumer Wohnungs-gesellschaft mbH		**Total**	
€ million	**2019**	2018	**2019**	2018	**2019**	2018
Net assets of associates as of 01.01.	20.9	20.9	3.6	3.6	24.5	24.5
Net profit/loss	0.6	0.6	0.0	0.0	0.6	0.6
Addition to reserves	–	–	–	–	–	–
Dividend	– 0.1	– 0.1	–	–	– 0.1	– 0.1
Net assets of associates as of 31.12.	21.4	21.4	3.6	3.6	25.0	25.0
Group share in %	40.62	40.62	33.37	33.37	–	–
Interest in net assets of associates	8.7	8.7	1.2	1.2	9.9	9.9
Carrying amount of the investment	**8.7**	**8.7**	**1.2**	**1.2**	**9.9**	**9.9**

The annual financial statements of both companies as at 31 December 2019 are not yet available and therefore the figures as at 31 December 2018 are indicated for 2019.

D. Accounting policies

1 | Investment properties

Investment property consists of the LEG Group's properties that are held to earn rental income 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 twelve months is recognised as an asset held for sale under current assets. Its measurement is consistent with the measurement of investment property.

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

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

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

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

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

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

Fair values are calculated internally by LEG Immo. In addition to the fair values calculated internally by LEG Immo, the property portfolio was valued by an independent, third-party expert as at 30 June 2019 and 31 December 2019. LEG Immo uses the third-party valuation to check the plausibility of its own calculations and as a general confirmation of the value of the portfolio as a whole through a second opinion.

The properties are reviewed individually by LEG Immo at the level of individual building entrances in terms of their location, condition, fixtures and fittings, current contractual rent and potential for development. The fair values calculated are consistent with the IFRS market values, i.e. the amount for which the respective property could be exchanged between market participants under current market conditions on the measurement date 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 is applied in DCF measurement. After the end of the tenth year, a sales value is recognised that is calculated by capitalising the forecast annual net profit for the eleventh period, taking the property-specific remaining useful life into account. It is assumed that the minimum and maximum remaining useful lives of the individual properties are 25 years and 80 years respectively. The contractually agreed rental income for the respective property and other propertyspecific 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 5.83 per square metre as at the end of the reporting period (2018: EUR 5.65 per square metre). These properties can also contain commercial units in some cases. The future development of annual rent is 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 0.7 % to 2.00 %, 1.30 % on average based on specific market and property assessments. Rent from existing tenancies is projected on the basis of the statutory environment and the assessment of the respective market and property, and is assumed to converge with the overall market trend over time. The vacancy rate in terms of rental and usable space used for measurement is adjusted to a stabilised vacancy rate in line with market conditions, which also take account of location, and where appropriate the individual property characteristics over a period of four years.

Subsidised properties are treated differently depending on the existence and duration of potential rent control. If rent control is set to end within the ten-year detailed planning period, a rent adjustment towards the market rent is assumed for the subsequent year, taking into account the statutory requirements. For the remaining subsidised properties for which rent control will expire by 2100 at the latest, a discount on the capitalisation rate is recognised depending on the remaining duration of rent control.

For maintenance and management costs for the properties used predominantly for residential purposes, the cost rates used are aligned to the Second Rent Computation Ordinance (II BV, from 1 January 2020).

The assumed reactive and periodical maintenance costs are derived on the basis of the technical assessment of the property and the year of construction, while for administrative costs a flat rate per residential unit and per parking space is used.

For residential buildings with a commercial component or other type of use, administrative costs for the non-residential component are calculated at 1.0 % (2018: 1.0 %) of gross commercial income. 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, between the adjustment periods the measurement model thus applies a standard increase in management costs in accordance with II BV as an annual increase distributed over three years.

In addition, the development of maintenance and management costs was dynamic in the period under review. The cost increase of 2.00 % per year is derived from the development in the consumer price index expected in the medium term.

Around 1.29 % of the units in the portfolio are classified as commercial properties. In some cases, these properties can contain residential units, but they are characterised by their primarily commercial character. Owing to the differing rent terms and market conditions compared to the residential portfolio, these properties are also subject to different assumptions with regard to the key parameters affecting their value. The average rent of the primarily commercial properties is EUR 7.07 per square metre (2018: EUR 7.13 per square metre).

Cash flows are discounted using standard market discount rates with matching maturities of 4.82 % on average (weighted average; previous year: 5.20 %) and standard market capitalisation rates for perpetuals of 6.07 % (weighted average; previous year: 6.06 %); this takes into account the property-specific management cost ratio and reflects the individual risk/opportunity profile of the respective property. In addition to location criteria, the determination of an appropriate interest rate takes into account the property type, property condition, age, potential rental growth, the forecast for the location and potential government subsidies in particular.

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

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

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

Commercial property is defined as property upwards of 1,000 square metres of usable 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:

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Valuation parameters as at 31 December 2019

	GAV investment properties	Valuation technique	Market rent residential/commercial €/sqm			Maintenance cost residential/commercial €/sqm			Administrative cost rate residential/commercial €/unit			Stabilised vacancy ratio %		
	€ million		min	Ø	max	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets														
High-growth markets	4,824	DCF	3.84	8.16	13.33	5.56	11.77	15.58	215	303	462	1.0	1.8	6.0
Stable markets	3,665	DCF	2.40	6.36	9.84	4.53	11.82	15.08	198	300	462	1.5	3.1	9.0
Higher-yielding markets	2,200	DCF	0.36	5.85	8.78	1.92	11.91	15.45	164	300	462	1.5	4.3	9.0
Acquisitions	363	DCF	4.15	7.61	14.00	7.16	13.07	14.00	39	239	299	0.0	2.6	7.7
Commercial assets	211	DCF	1.00	7.41	27.00	0.87	5.99	13.03	1	279	5,482	1.0	2.6	9.0
Leasehold	520	DCF	1.50	6.46	11.25	7.42	11.63	14.88	11	279	2,662	1.0	2.9	7.0
Parking + other assets	215	DCF							0	37	54			
land values	33	Earnings/ reference value method							0	6	14			
Total IAS 40[1]	**12,031**	**DCF**	**0.36**	**6.66**	**27.00**	**0.87**	**11.84**	**15.58**	**0**	**276**	**5,482**	**0.0**	**3.1**	**9.0**

	Discount rate %			Capitalisation rate %			Estimated rental development %		
	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets									
High-growth markets	3.6	4.7	5.6	2.2	5.2	9.6	1.3	1.7	2.0
Stable markets	3.6	4.7	5.6	2.5	6.0	10.0	0.8	1.2	1.8
Higher-yielding markets	3.9	4.9	6.3	3.5	6.4	10.6	0.7	1.0	1.5
Acquisitions	4.6	4.8	6.6	3.4	5.1	8.2	1.0	1.4	1.9
Commercial assets	2.5	6.5	9.0	2.8	7.1	11.4	0.7	1.5	1.9
Leasehold	3.6	4.9	6.9	3.1	6.3	12.4	0.8	1.2	1.9
Parking + other assets	4.1	4.8	5.7	2.9	7.1	12.8	0.7	1.3	2.0
land values	3.6	4.8	5.4	2.2	11.1	12.3	0.9	1.3	1.9
Total IAS 40[1]	**2.5**	**4.82**	**9.0**	**2.2**	**6.05**	**12.8**	**0.7**	**1.3**	**2.0**

[1] In addition, there are assets held for sale (IFRS 5) as at 31 December 2019 in the amount of EUR 25.2 million that are assigned to level 2 of the fair value hierarchy.

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2018:

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Valuation parameters as at 31 December 2018 [1]

	GAV investment properties	Valuation technique	Market rent residential/commercial €/sqm			Maintenance cost residential/commercial €/sqm			Administrative cost rate residential/commercial €/unit			Stabilised vacancy ratio %		
	€ million		min	Ø	max	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets														
High-growth markets	4,611	DCF	2.84	7.76	13.21	6.35	11.77	16.05	86	300	458	1.0	1.8	9.0
Stable markets	3,297	DCF	2.24	6.12	8.99	9.04	11.83	15.35	202	297	457	1.5	3.0	9.0
Higher-yielding markets	2,212	DCF	0.27	5.69	8.35	8.13	11.83	15.06	211	297	457	1.5	4.2	9.0
Non NRW	165	DCF	4.12	6.86	9.10	8.24	11.91	12.88	270	297	457	1.5	2.1	4.5
Commercial assets	208	DCF	1.00	7.50	27.00	4.46	7.29	15.37	10	269	5,277	1.0	2.6	8.0
Leasehold	208	DCF												
Parking + other assets	185	DCF												
land values	31	Earnings/ reference value method												
Total IAS 40 [2]	**10,917**	**DCF**	**0.57**	**5.36**	**34.29**	**4.46**	**11.76**	**16.05**	**10**	**298**	**5,277**	**1.0**	**3.1**	**9.0**

	Discount rate %			Capitalisation rate %			Estimated rental development %		
	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets									
High-growth markets	3.9	5.0	6.2	2.5	5.6	11.3	1.0	1.6	2.0
Stable markets	3.9	5.0	5.8	2.9	6.2	11.8	0.8	1.2	1.8
Higher-yielding markets	4.1	5.2	6.2	3.1	6.6	12.1	0.6	1.0	1.5
Non NRW	3.9	5.0	5.5	3.7	6.2	8.5	1.1	1.5	1.7
Commercial assets	2.5	6.5	9.0	2.8	7.1	10.0	0.7	1.4	2.0
Leasehold	–	–	–						
Parking + other assets	4.9	5.1	5.6	10.7	11.6	12.6			
land values	4.2	5.2	8.1	3.7	6.6	11.5			
Total IAS 40 [2]	**2.5**	**5.1**	**9.0**	**2.5**	**6.3**	**12.6**	**0.6**	**1.3**	**2.0**

[1] In the consolidated IFRS statements as at 31 December 2018 the valuation parameters were weighted by sqm; from now on they are weighted by units.
[2] In addition, there are assets held for sale (IFRS 5) as at 31 December 2018 in the amount of EUR 20.3 million that are assigned to level 2 of the fair value hierarchy.

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:

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Useful life of property, plant and equipment

in years	2019	2018
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/Other operating and office equipment	3 to 23	5 to 23

Low-value assets with a net value of up to EUR 250 are immediately written off in full in the year of their acquisition. Assets with a net value between EUR 250.01 and EUR 800 are written off in full in the year of their acquisition. Deviations from the economic life of the respective assets are considered immaterial.

3| Intangible assets and goodwill

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

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

There are therefore four CGUs to which goodwill has been allocated within the LEG Group as at 31 December 2019. In addition to the CGU groups “Vitus” and “Wohnen like-for-like”, the property portfolios “Bismarck” (acquired from Sahle Wohnen GmbH & Co. KG by way of purchase agreement dated 30 November 2015) and “Charlie” (acquired from Vonovia SE by way of purchase agreement dated 22 December 2015) also have goodwill. The portion of goodwill resulting from deferred tax liabilities is allocated to the respective CGU that holds the assets and liabilities. The following goodwill amounts therefore relate to the CGU groups as at 31 December 2019:

- “Vitus”: EUR 34.0 million (previous year: EUR 34.0 million)
- “Wohnen like-for-like”: EUR 49.7 million (previous year: EUR 49.7 million)
- “Bismarck”: EUR 0.2 million (previous year: EUR 0.2 million)
- “Charlie”: EUR 0.9 million (previous year: EUR 0.9 million)

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

The LEG Group acquired 94.9 % of the shares in each of three companies from the Baum Group on 31 December 2019. At the time of acquisition, provisional goodwill of EUR 54.4 million was recognised. There has not yet been an allocation to one or more cash-generating units. The management has not concluded the analysis in respect to the distribution of the expected synergies of the cash-generating units.

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

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

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

Key assumption for the impairment tests are net cold rents, sustainable investments per square metre and the sustainable EBITDA margin. These were as follows:

- "Vitus" EUR 39.6 million (previous year: EUR 38.1 million);
  sustainable investments EUR 29.14 per square metre (previous year: EUR 24.51 per share metre),
  sustainable EBITDA margin 71.2 % (previous year: 72.6 %)
- "Wohnen like-for-like" EUR 490.3 million (previous year: EUR 465.8 million);
  sustainable investments EUR 27.82 per square metre (previous year: EUR 23.19 per share metre),
  sustainable EBITDA margin 73.2 % (previous year: 77.9 %)
- "Bismarck" EUR 15.7 million (previous year EUR 15.4 million);
  sustainable investments EUR 27.46 per square metre (previous year: EUR 22.77 per share metre),
  sustainable EBITDA margin 72.7 % (previous year: 73.4 %)
- "Charlie" EUR 43.0 million (previous year: EUR 42.1 million);
  sustainable investments EUR 28.35 per square metre (previous year: EUR 24.34 per share metre),
  sustainable EBITDA margin 67.0 % (previous year: 67.1 %)

A uniform capitalisation rate of 1.9 % (previous year: 2.8 %) was used for the CGUs analysed in the goodwill impairment test, representing a corresponding pre-tax capitalisation rate of 2.1 % (previous year: 3.2 %), taking into account a typical tax rate on EBIT of 31.2 %.

A sustainable growth rate of 0.4 % p.a. is assumed for all CGUs (previous year: 0.75 %). The goodwill impairment tests performed did not give rise to any impairment requirements. Recoverable amounts and headroom were as follows:

- "Vitus" recoverable amount EUR 916.6 million (previous year: EUR 806.9 million);
  headroom EUR 198.0 million (previous year: EUR 180.0 million)
- "Wohnen like-for-like" recoverable amount EUR 13,272.2 million (previous year:
  EUR 11,337.2 million); headroom EUR 3,063.0 million (previous year: EUR 2,030.2 million)
- "Bismarck" recoverable amount EUR 405.7 million (previous year, EUR 311.1 million);
  headroom EUR 112.2 million (previous year: 50.8 million)
- "Charlie" recoverable amount EUR 900.5 million (previous year: EUR 812.1 million);
  headroom EUR 188.1 million (previous year: EUR 184.2 million).

As a result of the transition to IFRS 16, lease payments are no longer included in free cash flows. On the other hand, account is taken of replacement investments for the rights of use from leases which are renewed at the end of the contract term. In deriving the cost of capital, in the reporting year the gearing ratios of peer group companies were adjusted for lease liabilities in the period before 1 January 2019. The carrying amount of the CGU groups include the rights of use from leases.

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. In this model calculation there are no impairment requirements for any CGU group.

Weighted costs of capital
The risks from assumptions regarding the capitalisation rate used as standard to calculate the present value of FVLCOD were tested by simulating impairment on each CGU group with a change in the costs of capital of +/– 50 basis points. This scenario analysis gave rise to impairment requirements for the "Charlie", "Vitus" and "Wohnen like-for-like" groups, resulting in a full write-down of the allocated goodwill. In the case of an increase of the capitalisation rate there is an impairment of 37 basis points at the "Charlie" CGU group, 40 basis at the "Vitus" CGU group and 44 basis points at the "Wohnen-like-for-like" CGU group.

4 | Impairment of assets

The LEG Group tests intangible assets and property, plant and equipment in accordance with IAS 36 for impairment losses at least once a year. Impairment testing is performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGUs) are formed as groups of assets whose future cash flows are interdependent.

As there were no triggering events for impairment in the "Biomasse" CGU in the financial year and the planned future free cash flow of Biomasse Heizkraftwerk GmbH & Co. KG was not lower than the previous year, the "Biomasse" CGU was not tested for impairment.

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

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

5 | Other financial assets

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

LEG Immo holds very small equity investments. In accordance with IFRS 9, these are classified in the fair value through profit and loss category. On acquisition the measurement takes place at fair value. Gains and losses on subsequent measurement at fair value are recognised in profit and loss. For the measurement of the fair value see **> section D.18.**

Subsidiaries which are not consolidated owing to their immateriality for the net assets, financial position and results of operations of the Group are recognised at fair value as at the end of the reporting period or, if this cannot be reliably determined, at cost. Shares in unconsolidated subsidiaries or subsidiaries recognised using the equity method are not quoted. Owing to the considerable volatility and the lack of an active market, the fair value of these instruments cannot be reliably determined. There is currently no intention to sell these shares in the near future.

6 | Accounting for leases as the lessee

The first-time adoption of IFRS 16 led to that for lessees all leases will be shown "on-balance". From the date at which the leased asset is available for use, the lessee generally recognises a right-of-use asset and a lease liability at present value. The leasing rate is divided into a repayment and financing share. The finance costs are recognised in profit or loss over the term of the leases.

The rights of use assets are amortised on a straight-line basis over the term of the lease or, if shorter, over the useful life of the asset. The subsequent valuation of investment property is measured at fair value in accordance with IAS 40, therefore the subsequent valuation of the rights of use of leasehold is also measured at fair value.

Lease liabilities of the LEG Group may include the present value of fixed lease payments less leasing incentives to be received as well as variable lease payments linked to an index.

If determinable, the discounting of lease payments is based on the implicit interest rate on which the lease is based. Otherwise, the incremental borrowing rate is used for discounting.

The rights of use assets are valued at acquisition cost, which can be assembled composed of the amount of the initial valuation of the lease liability as well as of all lease payments made at or before the provision less any leasing incentives that may have been received. Subsequent valuation is at amortised cost with the exception of leaseholds, which are measured at fair value in accordance with IAS 40.

As changeover method the modified retrospective method was chosen. The previous year's figures were not adjusted. For short-term leases with a term of less than twelve months, the exempting provision is not used. For low value asset leases, for example mobile phones, the exempting provision is used. The payments are recognised as an expense in the income statement on a straight-line basis. Moreover LEG has made use of the option to waive the separation of the leasing component and the non-leasing component. This essentially applies leases for cars.

For the contracts relating to measurement and reporting technology previously recognised as finance leases in accordance with IAS 17, recognition is to be based on clusters (property level) because of the high number of the individual contracts in the course of the IFRS 16 transition. This results in the use of weighted durations. The exempting provision for low value asset leases is not used for the measurement and reporting technology.

Several property lease contracts of LEG group comprise extension and termination options. These contract conditions ensure the group the highest operational flexibility with regard to contract portfolio. The determination of contract term occurs in consideration of all facts which offer economic incentive for exercising or not exercising the option. A contract term will only be adjusted if the exercise or non-exercise of an option is reasonably certain.

The reconciliation of the obligations under operating leases as at 31 December 2018 to the recognised lease liabilities in accordance with IFRS 16 as at 1 January 2019 is as follows.

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Reconciliation leasing

€ million	01.01.2019
Obligations from operating leases as at 31.12.2018	81.1
Obligations from finance leases as at 31.12.2018	40.9
Lease contracts on assets with low value, recognised as expense on a straight line basis	– 0.3
Other	6.9
Gross lease liabilities as at 1 January 2019	**128.6**
Discounted by the average incremental borrowing rate	46.7
Lease liabilities as at 1 January 2019	**81.9**

As a result of the initial application of IFRS 16, lease liabilities of EUR 55.6 million were initially recognised as at 1 January 2019. These liabilities were measured at the present value of the minimum lease payments. Discounting is performed with the incremental borrowing rate as at 1 January 2019. To determine the incremental borrowing rate, a risk-free interest rate with maturities between one and 30 years is used and a maturity-specific risk premium is used. This calculation of the incremental borrowing rate is used in subsequent measurement. For all types of contracts, the weighted average incremental borrowing rate was 2.77 %.

As part of the first-time application of IFRS 16, a stock-taking of all leases was carried out again. This resulted in improved data quality, especially in the areas of leasehold and measurement and reporting technology. These effects are shown in the reconciliation table under other.

The first application of IFRS 16 as at 1 January 2019 resulted in the following adjustments in the opening balance sheet. Due to the changeover using the modified retrospective method, previous year's figures were not restated. All effects from the first-time application of IFRS 16 were recognised in retained earnings with no effect on income.

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Adjustment opening balance sheet as at 1 January 2019

€ million	31.12.2018	Adjustment IFRS 16	2019
Assets			
Investment properties	10,709.0	35.8	10,744.8
Property, plant and equipment	62.5	16.3	78.8
Intangible assets and goodwill	85.3	0.6	85.9
Deferred tax assets	7.4	1.6	9.0
Total	**10,864.2**	**54.3**	**10,918.5**
Liabilities			
Cumulative other reserves	4,083.2	– 4.6	4,078.6
Non-current financing liabilities	4,113.3	55.0	4,168.3
Current financing liabilities	484.8	3.9	488.7
Total	**8,681.3**	**54.3**	**8,735.6**

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 IFRS 16, these agreements are classified as operating leases as the significant risks and rewards remain with the LEG Group. The same applies to the current agreements for commercial property.

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

8 | Receivables and other assets

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

For rent receivables and receivables from uninvoiced operating costs, the LEG Group uses the expected credit loss model. Here the simplified approach in accordance with IFRS 9 is used and lifetime expected credit losses calculated.

9 | Receivables and liabilities from operating costs not yet invoiced

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

10 | Cash and cash equivalents

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

11 | Assets held for sale

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

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

12 | Pension provisions

Pension and similar obligations result from commitments to employees. Obligations arising from defined benefit plans are measured in accordance with the projected unit credit method. Using this method, forecast future increases in salaries and benefits are taken into consideration in addition to benefits and entitlements known at the end of the reporting period. The biometric basis is provided by the 2018G Heubeck mortality tables.

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

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

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

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

13 | Other provisions

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

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

14 | 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 equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk.

Subsequent measurement takes place at amortised cost using the effective interest method. The effective interest rate is determined on initial recognition of the financial liability.

Changes in terms affecting the amount and timing of interest and principal payments result in the re-measurement of the carrying amount of the liability in the amount of the present value on the basis of the effective interest rate originally calculated. Any differences compared to the previous carrying amount are recognised in profit or loss. If changes in terms lead to significant differences in contractual conditions, the original liability is treated as if it had been repaid in full in accordance with IFRS 9. Subsequently a new liability is recognised at fair value.

15 | Interest derivatives

The LEG Group uses derivative financial instruments to hedge interest rate risks incurred in financing its properties.

Derivative financial instruments are measured at fair value. Changes in the fair value of derivatives are recognised through profit or loss if no hedging relationship in accordance with IFRS 9 exists. Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities.

At the inception of the hedge and as at the end of the reporting period, the effectiveness of the hedging relationships is determined using prospective assessments. Here a check is made if the contractual conditions of the hedged item match those of the hedging instrument and that an economic relationship exists.

Changes in fair value are divided into an effective and an ineffective portion. Effectiveness is determined using the dollar offset method. The effective portion is the portion of the gain or loss on remeasurement that is recognised as an effective hedge against the cash flow risk. The effective portion, net of deferred taxes, is recognised directly in other comprehensive income (equity). Ineffective hedges can result from embedded floors in loan agreements, which are not matched in the relevant swap and from taking into account the credit risk in the context of derivative measurement.

The ineffective portion of the gain or loss on remeasurement is reported in net finance costs in the consolidated statement of comprehensive income. The amounts recognised directly in equity are transferred to the consolidated statement of comprehensive income if gains or losses in connection with the underlying are recognised in profit or loss. In the event of the early termination of the hedge, the amounts recognised in equity are reclassified to profit or loss if gains or losses in connection with the underlying are recognised in profit or loss. If the underlying is terminated, then the amounts remaining in other comprehensive income are immediately recognised in profit or loss.

16 | Fair values of financial instruments

The fair values of financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other short-term primary financial instruments, the fair value is approximately the same as the carrying amount at the end of the respective reporting period.

For non-current receivables, other assets and liabilities, the fair value is calculated on the basis of the forecast cash flows, applying the reference interest rates as at the end of the reporting period. The fair values of de-rivative financial instruments are calculated using the reference interest rates as at the end of the reporting period plus own risk or counterparty risk.

For financial instruments at fair value, the discounted cash flow method is used to determine fair value using corresponding quoted market prices, with individual credit ratings and other market conditions being taken into account in the form of standard credit and liquidity spreads when calculating present value. If no quoted market prices are available, the fair value is calculated using standard measurement methods applying instrument-specific market parameters.

When calculating the fair value of derivative financial instruments, the input parameters for the valuation models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources. Accordingly, derivatives are assigned to Level 2 of the fair value hierarchy set out in IFRS 13.72 et seq. (measurement on the basis of observable inputs). Please see > **section D.18**.

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

17 | Put options

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

18 | Calculation of fair value

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

The fair value hierarchy can be summarised as follows:

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Fair value hierarchy

€ million	Level 1	Level 2	Level 3
Purchase price allocation in the context of business combinations			X
Investment properties			X
Financing liabilities		X	
Other liabilities (particularly derivative)		X	
Investments in corporations and partnerships without control or significant influence			X

There were no transfers between the fair value hierarchy.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. Allocation to Level 3 takes place based on valuation models with inputs not observed on a market. This relates primarily to the capitalisation rate of 4.80 % (previous year: 6.08 %). As at 31 December 2019, the fair value of the very small equity investments was EUR 12.0 million (previous year: EUR 9.1 million). The stress test of this parameter on the basis of plus 50 bp results in a reduction of the fair value to EUR 11.0 million (previous year: EUR 8.5 million) and at minus 50 bp in an increase of the fair value to EUR 13.2 million (previous year: EUR 9.8 million).

19 | Revenue recognition

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

a) Rental and lease income
The Group generates income from the rental and lease of properties. Rental income is within the scope of IFRS 16 Leases and are not customer contracts in accordance with IFRS 15.

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

Rental and lease income also includes tenant payments for utilities and service charges if the services have been provided. For allocable operating costs, there are isolated items in which the LEG Group qualifies as an agent under IFRS 15. The operating costs of cold water supply, draining and street cleaning, for which the LEG Group operates as agent, are recognised on a net basis. The other operating costs are recognised on a gross basis. Please see > section F.1.

Revenues from operating costs are calculated on the basis of the costs incurred and correspond to the con-tractually agreed transaction price. Advance payments for operating costs are due by the third day of the current month. Revenues are recognised related to the time period over the month. In the subsequent year, the advance payments made for operating costs are offset against the actually incurred values. Surpluses from prepayments received are recognised under rental and lease liabilities. If the prepayments received are lower than the actually incurred operating costs, this is recognised under receivables from rental and leasing activities.

The operating costs of property tax and insurance are recognised as an element of rent and lease income from lease agreements in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective agreements.

b) Income from the disposal of property

The Group generates income from the disposal of property. Income from the disposal of property is recognised when title and effective control of the property is transferred to the buyer. A transfer is assumed to take place when the LEG Group transfers title and effective control of the property sold to the buyer and it is probable that the income from the disposal will flow to the LEG Group.

By contrast, income is not recognised if the LEG Group assumes yield guarantees, grants a right of return to the buyer or enters into other material obligations with respect to the buyer that prevent a transfer of control to the buyer.

Income represents the contractually agreed transaction price. In general the consideration is due when the legal title is transferred. In rare cases deferred payments can be agreed. However these do not exceed twelve months. For this reason, no significant financing component is included in the transaction price.

c) Income from other services

Income from other services covers income from services and third-party management.

Income from other services is recognised as income for a period of time, as the customer directly receives and uses the benefits from the service. The transaction price and its due date are based on the agreed contractual conditions.

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 (other liabilities, see > section E.12) and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

The difference between the nominal amount and the present value of the loan is recognised as deferred income (other liabilities, see > section E.12).

21 | Income taxes

The income tax expense represents the total of the current tax expense and the deferred taxes.

The LEG Group is only subject to taxation in Germany. Some judgements have to be made in assessing income tax receivables and liabilities. It cannot be ruled out that the tax authorities will make a different assessment. The uncertainty this entails is taken into account by recognising uncertain tax receivables and liabilities only when the LEG Group considers their probability of occurrence to be higher than 50 %. Any changes in judgements, e. g. due to final tax assessments, affect current and deferred tax items. The best estimate of the provisionally expected tax payment is used for recognised uncertain income tax items.

The current tax expense is calculated on the basis of the taxable income for the year. Taxable income differs from the consolidated net profit for the period, as shown in the consolidated statement of comprehensive income, due to income and expenses that are only taxable or tax-deductible in future periods, if at all. The Group's liabilities and provisions for current taxes are calculated on the basis of the applicable tax rates.

Deferred taxes are recognised for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base for the purpose of calculating taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised or deferred tax liabilities exist. Deferred tax assets also include reductions in taxes resulting from the expected utilisation of existing tax loss carryforwards (or similar items) in subsequent periods if realisation is reasonably assured.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met. In accordance with IAS 12, a company must recognise deferred taxes (outside basis differences) for taxable and deductible temporary differences between the consolidated IFRS net assets and the carrying amount in the tax accounts of interests in subsidiaries, associates and joint arrangements under certain conditions.

Deferred tax liabilities and deferred tax assets are calculated on the basis of the tax rates (and tax legislation) that are expected to be in force when the liability is settled or the asset is realised. This is based on the tax legislation in force or adopted by the Bundestag (Lower House of the German Parliament) and, where applicable, the Bundesrat (Upper House of the German Parliament) as at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Group expects to settle the deferred tax liabilities or realise the deferred tax assets as at the end of the reporting period.

Current or deferred taxes are recognised in profit or loss unless they relate to items that are recognised in other comprehensive income or recognised directly in equity. In this case, the corresponding current and deferred taxes are recognised in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and to the same taxable entity. In addition, only deferred taxes that relate to items of the statement of financial position with the same maturity are netted.

22 | Judgements

The management is required to use judgement in applying the accounting policies. This applies in particular to the following items:

- For assets held for sale, it must be determined whether the assets can be sold in their present condition and whether their disposal can be considered highly likely within the meaning of IFRS 5. If this is the case, the assets and, if existing, any corresponding liabilities are reported and measured as assets and liabilities held for disposal.
- It must be determined whether property should be classified as inventories or investment property depending on the intended use.
- Buildings that are both owner-occupied and used by third parties must be reported as separate assets in accordance with IAS 16 and IAS 40, unless the owner-occupied component is immaterial.
- In the context of portfolio acquisitions, non-controlling interests are reported if material risks and rewards lie with the minority shareholder.

- Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities. When calculating the fair value of derivative financial instruments, the input parameters for the valuation models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources.

- Lease contracts of the LEG Group can include extension and termination options. The determination of contract term occurs in consideration of all facts which offer economic incentive for exercising or not exercising the option. A contract term will only be adjusted if the exercise or non-exercise of an option is reasonably certain.

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.

- Measurement of lease liabilities: in determining the incremental borrowing rate, estimates are necessary in respect to the risk premium.

- Recognition of deferred tax assets: Deferred tax assets are recognised if it is probable that future tax benefits will be realised. The actual taxable income in future financial years, and hence the extent to which deferred tax assets can be utilised, can deviate from the estimates made when the deferred tax assets are recognised. Deferred tax assets for tax loss carryforwards are recognised on the basis of future taxable income for a planning period of five financial years.

- Share-based payment (IFRS 2): Assumptions and judgements regarding the development of performance indicators and fluctuation are required in accounting for stock option plans. They are calculated using option pricing models.

- Goodwill impairment test: The calculation of the FVLCOD requires assumptions and judgements regarding future EBIT development and sustainable growth rates in particular.

- When accounting for business combinations, all identifiable assets, liabilities and contingent liabilities are carried at fair value to the acquisition date. There is estimation uncertainty relating to the determination of these fair values. Land and buildings are generally measured on the basis of independent valuations, technical equipment and machinery at estimated replacement cost. Identifying and measuring intangible assets takes place in line with the type of intangible asset and the complexity of determining fair values using appropriate measurement techniques.

Further information on assumptions and estimates made by management can be found in the disclosures to the individual items of the financial statements. All assumptions and estimates are based on the prevailing circumstances and assessments as at the end of the reporting period.

The estimation of future business development also takes into account the future economic environment that is currently assumed to be realistic in the industries and regions in which the LEG Group operates.

Although the management considers assumptions and estimates applied to be appropriate, unforeseeable changes to these assumptions could affect the Group's net assets, financial position and results of operations.

24 | Share-based payment

The LEG Group has share-based remuneration plans (share option plans) for members of the Management Board of LEG Immo. In line with IFRS 2, the share option plans in the context of the long-term incentive programme are treated as cash-settled share-based remuneration. The provisions for these obligations are established at the level of the expected expense, with them being distributed pro rata across the defined vesting period. The fair value of the options is determined using recognised financial models.

Details of share-based payment can be found in > **section I.6.**

E. Notes to the consolidated statement of financial position

1 | Investment properties

Investment property developed as follows in the 2019 and 2018 financial years:

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Investment properties

€ million	Total	Residential assets: High-growth markets	Residential assets: Stable markets	Residential assets: Higher-yielding markets	Residential assets: Non NRW	Commercial assets	Parking + other assets	Leasehold	Land values
Carrying amount as of 01.01.2019	**10,709.0**	**4,607.3**	**3,296.8**	**2,212.1**	**164.5**	**209.4**	**184.9**	**3.4**	**30.6**
First-time application IFRS 16	35.8	– 26.4	– 9.3	– 17.9	– 2.7	0.1	– 0.1	92.2	0.0
Acquisitions	360.7	134.3	156.2	31.8	26.6	7.7	4.1	– 0.3	0.2
Other additions	201.5	73.8	66.3	49.3	3.8	3.7	0.1	3.6	0.8
Reclassified to assets held for sale	– 200.2	– 9.3	– 55.4	– 125.9	– 1.8	– 1.1	– 4.0	0.0	– 2.8
Reclassified from assets held for sale	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Reclassified to property, plant and equipment	– 0.5	1.4	– 0.1	0.1	0.0	– 1.6	0.0	– 0.2	0.0
Reclassified from property, plant and equipment	1.3	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0
Fair value adjustment	923.4	427.0	283.8	132.6	7.2	7.0	34.7	28.0	3.0
Carrying amount as of 31.12.2019	**12,031.1**	**5,208.1**	**3,738.3**	**2,282.2**	**197.6**	**225.2**	**219.7**	**128.0**	**31.8**

Fair value as at 31.12.2019:	923.4
Thereof as at 31.12.2019 in the portfolio:	923.2
Thereof as at 31.12.2019 disposed investment properties:	0.2

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Investment properties

€ million	Total	Residential assets: High-growth markets	Residential assets: Stable markets	Residential assets: Higher-yielding markets	Residential assets: Non NRW	Commercial assets	Parking + other assets	Leasehold	Land values
Carrying amount as of 01.01.2018	**9,460.7**	**4,185.0**	**2,828.2**	**1,910.0**	**144.0**	**197.5**	**165.9**	**3.4**	**26.7**
First-time application IFRS 16	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	292.3	46.7	92.1	133.8	0.0	11.2	6.6	0.0	2.0
Other additions	174.0	63.3	67.3	39.1	2.8	1.4	0.0	0.0	0.0
Reclassified to assets held for sale	– 34.8	– 5.2	– 2.3	– 12.5	– 0.1	– 14.3	– 0.3	0.0	– 0.1
Reclassified from assets held for sale	15.8	0.3	4.4	9.6	0.4	1.0	0.0	0.0	0.0
Reclassified to property, plant and equipment	– 1.3	– 0.4	0.0	– 0.1	0.0	– 0.9	0.0	0.0	0.0
Reclassified from property, plant and equipment	1.4	0.0	0.1	0.0	0.0	1.2	0.2	0.0	0.1
Fair value adjustment	800.9	317.6	307.0	132.2	17.4	12.3	12.5	0.0	1.9
Carrying amount as of 31.12.2018	**10,709.0**	**4,607.3**	**3,296.8**	**2,212.1**	**164.5**	**209.4**	**184.9**	**3.4**	**30.6**

Fair value as at 31.12.2018:	800.9
Thereof as at 31.12.2018 in the portfolio:	800.9
Thereof as at 31.12.2018 disposed investment properties:	0.0

The acquisitions include the following portfolios:

Portfolio acquisition 1
The acquisition of a property portfolio of around 276 residential and commercial units was notarised on 1 August 2019. The portfolio generates annual net cold rent of around EUR 1.2 million. The average in-place rent is around EUR 5.36 per square metre and the initial vacancy rate is around 1.6 %. The transaction was closed on 1 November 2019. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Portfolio acquisition 2
The acquisition of a property portfolio of around 751 residential and commercial units was notarised on 2 August 2019. The portfolio generates annual net cold rent of around EUR 3.5 million. The average in-place rent is around EUR 5.28 per square metre and the initial vacancy rate is around 1.3 %. The transaction was closed for 573 units on 1 November 2019. The transition date for the remaining 178 units was 1 January 2020. The portfolio acquisition does not constitute a business combination as defined by IFRS 3..

Portfolio acquisition 3
The acquisition of a property portfolio of around 136 residential and commercial units was notarised on 30 April 2019. The portfolio generates annual net cold rent of around EUR 0.7 million. The average in-place rent is around EUR 5.59 per square metre and the initial vacancy rate is around 1.4 %. The transaction was closed on 1 September 2019. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

The purchase of a property portfolio from Baum Gruppe with around 2,264 residential units was treated as a business combination within the meaning of IFRS 3. See > **section C.3.**

Other additions in the financial year essentially relate to investments in existing properties. The biggest investments in 2019 include the energy modernisation of properties in Dortmund, Monheim, Münster, Mönchengladbach and Bonn.

The sale of a property portfolio with 2,671 residential units was notarised on 18 June 2019. The revaluation of the property portfolio resulted in loss from the remeasurement of investment properties of EUR 2.2 million. The carrying amount was disposed with closing of the transaction on 1 October 2019.

Investment property broke down as follows in the 2019 and 2018 financial years:

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Composition of investment properties

€ million	31.12.2019 Investment properties	31.12.2019 Properties held for sale	31.12.2018 Investment properties	31.12.2018 Properties held for sale
Developed land	11,772.2	24.8	10,488.0	18.7
Undeveloped land	27.7	0.4	27.3	1.3
Other	231.2	–	193.7	0.3
Total	**12,031.1**	**25.2**	**10,709.0**	**20.3**

The situation on the property markets is still characterised by relatively low returns on purchase prices. The monitoring of market transactions performed in the year under review is reflected in the calculation of fair values with corresponding discount rates. The measurement methods selected take into account both the general market environment and LEG Group's typically strong operating activities.

Sensitivities were as follows as at 31 December 2019:

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Sensitivity analysis 2019

	GAV investment properties	Valuation technique	Sensitivities in %							
			Administrative costs		Stabilised vacancy ratio		Maintenance costs		Capitalisation rate	
Segment	€ million		+ 10 %	– 10 %	+ 1 % pts.	– 1 % pts.	+ 10 %	– 10 %	+ 0.25 %	– 0.25 %
Residential assets										
High-growth markets	4,824	Discounted Cashflows	– 0.7	0.7	– 1.5	1.5	– 1.7	1.7	– 3.1	3.4
Stable markets	3,665	Discounted Cashflows	– 1.0	1.0	– 1.7	1.7	– 2.4	2.4	– 2.6	2.8
Higher-yielding markets	2,200	Discounted Cashflows	– 1.1	1.1	– 1.7	1.8	– 2.7	2.7	– 2.1	2.3
Acquisitions	363	Discounted Cashflows	– 0.6	1.1	– 1.4	1.8	– 1.8	2.3	– 2.9	3.7
Commercial assets	211	Discounted Cashflows	– 0.1	0.4	– 1.6	1.9	– 1.0	1.3	– 2.0	2.5
Leasehold	520	Discounted Cashflows	– 1.0	1.0	– 1.7	1.7	– 2.4	2.4	– 2.1	2.3
Parking + other assets	215	Discounted Cashflows	– 0.9	1.5	– 0.9	1.3	– 2.2	2.7	– 1.6	2.2
Land values	33	Earnings/reference value method	–	–	–	–	–	–	–	–
Total IAS 40[1]	**12,031**	**Discounted Cashflows**	**– 0.8**	**0.9**	**– 1.6**	**1.7**	**– 2.1**	**2.2**	**– 2.6**	**3.0**

	Sensitivities in %					
	Discount rate		Market rent		Estimated rent development residential	
Segment	+ 0.25 %	– 0.25 %	+ 2 %	– 2 %	+ 0.2 %	– 0.2 %
Residential assets						
High-growth markets	– 5.0	5.4	0.5	– 0.5	3.9	– 3.6
Stable markets	– 4.3	4.6	1.5	– 1.4	3.2	– 3.0
Higher-yielding markets	– 4.0	4.3	1.3	– 1.1	2.8	– 2.6
Acquisitions	– 4.6	5.5	2.2	– 1.8	3.9	– 3.1
Commercial assets	– 2.4	2.9	1.7	– 1.5	2.2	– 1.7
Leasehold	– 3.9	4.2	1.5	– 1.5	2.8	– 2.6
Parking + other assets	– 4.7	5.5	2.4	– 2.0	3.2	– 2.6
Land values	–	–	–	–	–	–
Total IAS 40[1]	**– 4.5**	**4.9**	**1.1**	**– 1.0**	**3.4**	**– 3.1**

[1] In addition, there are assets held for sale (IFRS 5) as at 31 December 2019 in the amount of EUR 25.2 million that are assigned to level 2 of the fair value hierarchy.

Sensitivities were as follows as at 31 December 2018:

T67

Sensitivity analysis 2018

Segment	GAV investment properties € million	Valuation technique	Sensitivities in % Administrative costs + 10 %	Administrative costs – 10 %	Stabilised vacancy ratio + 1 % pts.	Stabilised vacancy ratio – 1 % pts.	Maintenance costs + 10 %	Maintenance costs – 10 %	Capitalisation rate + 0.25 %	Capitalisation rate – 0.25 %
Residential assets										
High-growth markets	4,611	Discounted Cashflows	– 0.7	0.7	– 1.6	1.6	– 1.8	1.8	– 2.9	3.2
Stable markets	3,297	Discounted Cashflows	– 1.0	1.0	– 1.7	1.8	– 2.6	2.6	– 2.4	2.6
Higher-yielding markets	2,212	Discounted Cashflows	– 1.2	1.2	– 1.8	1.8	– 2.8	2.8	– 2.0	2.2
Non NRW	165	Discounted Cashflows	– 0.8	0.8	– 1.6	1.6	– 2.1	2.1	– 2.3	2.5
Commercial assets	208	Discounted Cashflows	– 0.2	0.2	– 1.8	1.8	– 1.7	1.7	– 2.0	2.2
Leasehold	0	Discounted Cashflows	–	–	–	–	–	–	–	–
Parking + other assets	185	Discounted Cashflows								
Land values	31	Earnings/reference value method								
Total IAS 40[1]	**10,709**	**Discounted Cashflows**	**– 0.9**	**0.9**	**– 1.7**	**1.7**	**– 2.3**	**2.3**	**– 2.5**	**2.8**

Segment	Sensitivities in % Discount rate + 0.25 %	Discount rate – 0.25 %	Market rent + 2 %	Market rent – 2 %	Estimated rent development residential + 0.2 %	Estimated rent development residential – 0.2 %
Residential assets						
High-growth markets	– 4.7	5.1	0.5	– 0.7	3.7	– 3.5
Stable markets	– 4.1	4.4	1.5	– 1.4	3.1	– 2.9
Higher-yielding markets	– 3.9	4.1	1.2	– 1.1	2.8	– 2.6
Non NRW	– 4.1	4.4	0.9	– 0.9	3.1	– 2.8
Commercial assets	– 2.5	2.6	1.5	– 1.8	1.8	– 1.7
Leasehold	–	–	–	–	–	–
Parking + other assets						
Land values						
Total IAS 40[1]	**– 4.3**	**4.6**	**1.0**	**– 1.1**	**3.2**	**– 3.1**

[1] In addition, there are assets held for sale (IFRS 5) as at 31 December 2018 in the amount of EUR 20.3 million that are assigned to level 2 of the fair value hierarchy.

Some investment property is let under the terms of commercial rental agreements and leases. These rental agreements and leases generally have a term of ten years and contain extension options for a maximum of two times five years.

The Group also has land with third-party heritable building rights with an original contractual term that is generally between 75 and 99 years.

The rental agreements for residential property concluded by the LEG Group can generally be terminated by the tenant giving three months' notice to the end of the month. Accordingly, fixed cash flows in the amount of three monthly rents are expected from these rental agreements.

The following amounts are expected to be due over the coming years based on the minimum lease instalments for long-term rental agreements for commercial property and leases for advertising space that were in place as at 31 December 2019:

T68

Amount based on minimum lease instalments for long-term rental agreements

	Remaining terms						Total
€ million	up to 1 year	> 1 to 2 years	> 2 to 3 years	> 3 to 4 years	> 4 to 5 years	> 5 years	
31.12.2019	**15.0**	**8.3**	**6.9**	**5.8**	**4.1**	**21.4**	**61.5**
31.12.2018	17.3	9.9	8.2	7.1	6.2	21.0	69.7

Investment property is used almost exclusively as collateral for financial liabilities – see also > section E. 11.

2| Property, plant and equipment

The development of property, plant and equipment is shown in the consolidated statement of > changes in assets (Annex I).

Due to the initial application of IFRS 16 all leases of which LEG is lessee become right of use. The new regulation has affected the asset classes rented land and buildings (company headquarters in Dusseldorf as well as individual branch offices), cars, IT peripheral devices (printers and photocopiers) as well as software. The asset classes heat contracting as well as measurement and reporting technology have already been recognised as finance lease in accordance with IAS 17. In total property, plant and equipment as well as intangible assets included right of uses with the following book value as at 31 December 2019.

T69

Right of use leases

€ million	31.12.2019
Right of use buildings	5.8
Right of use technical equipment and machinery	19.2
Right of use operating and office equipment	5.2
Property, plant and equipment	**30.2**
Right of use software	0.9
Total	**0.9**

In the reporting period further right of uses in the amount of EUR 7.8 million have been added.

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:

T70

Other financial assets

€ million	31.12.2019	31.12.2018
Investments in affiliates not included in consolidation	0.2	0.1
Investments in equity investments and associates	12.0	9.1
Other financial assets	11.0	1.6
Total	**23.2**	**10.8**

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:

T71

Receivables and other assets

€ million	31.12.2019	31.12.2018
Trade receivables, gross	30.6	33.9
Impairment losses	– 16.2	– 18.1
Total	**14.4**	**15.8**
Thereof attributable to rental and leasing	7.8	7.6
Thereof attributable to property disposals	0.8	0.9
Thereof attributable to other receivables	5.8	7.3
Thereof with a remaining term up to 1 year	14.4	15.8
Thereof with a remaining term of between 1 – 5 years	–	–
Receivables from uninvoiced operating costs	9.4	4.6
Other financial assets	52.6	17.6
Other miscellaneous assets	5.7	9.7
Total	**67.7**	**31.9**
Thereof with a remaining term up to 1 year	67.4	31.7
Thereof with a remaining term of between 1 – 5 years	0.3	0.2
Total receivables and other assets	**82.1**	**47.7**

Details of related parties can be found in > section I.7.

6 | Cash and cash equivalents

T72

Cash and cash equivalents

€ million	31.12.2019	31.12.2018
Bank balances	451.2	233.6
Cash on hand	0.0	0.0
Cash and cash equivalents	**451.2**	**233.6**
Restricted disposal balances	2.1	4.4[1]

1 Previous year's figure adjusted

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

T73

Assets held for sale

€ million	2019	2018
Carrying amount as of 01.01.	**20.3**	**30.9**
Reclassified from investment properties	200.5	34.8
Reclassified from property, plant and equipment	– 0.1	– 15.8
Disposal due to sale of land and buildings	– 195.5	– 29.6
Carrying amount as of 31.12.	**25.2**	**20.3**

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

For information on reclassifications from investment property, please see > section E.1.

The reclassifications to investment properties mainly relate to individual objects where the intention to sell no longer exists.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped land and residential and commercial buildings. The reclassification from investment properties and the disposals mainly relate to a large block sale (please see > section E.1) and several smaller individual sales.

See also > section F.3.

8| Equity

The change in equity components is shown in the statement of changes in equity.

a) Share capital
By way of resolution of the Annual General Meeting on 17 May 2017, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by up to a total of EUR 31,594,092.00 by issuing up to 31,594,092 new registered shares against cash or non-cash contributions by 16 May 2022 (Authorised Capital 2017).

The share capital is contingently increased by up to EUR 31,594,092.00 through the issue of up to 31,594,092 new no-par value bearer shares (Contingent Capital 2013/2017/2018).

After the issue of subscription shares in the 2019 financial year, the contingent capital resolved in the Annual General Meetings of 17 January 2013, 25 June 2014, 24 June 2015, 19 May 2016, 17 May 2017 and 17 May 2018 (Contingent Capital 2013/2017/2018) amounts to EUR 25,772,441.00.

The conversion of the issued convertible bond led to an increase in the share capital of EUR 5.8 million. The issued shares were fully paid in. The nominal value per share is EUR 1.00.

b) Cumulative other reserves
Cumulative other reserves consist of the Group's retained earnings and other reserves.

Retained earnings are composed of the net profits generated by the companies included in consolidation in prior periods and the current period, to the extent that these have not been distributed.

Other reserves consist of adjustments to the fair values of derivatives used as hedging instruments and actuarial gains and losses from the remeasurement of pension provisions.

In the 2019 financial year, there was a distribution to the shareholders of the company for 2018 in the form of a dividend of EUR 223.1 million (EUR 3.53 per share).

The initial application of IFRS 16 contains the measurement effect from the initial recognition of assets and liabilities amounting to EUR – 4.6 million.

Cumulative other reserves include the counterparty of the annual guaranteed dividend of EUR 1.8 million to the non-controlling interest of TSP-TechnikServicePlus GmbH.

The conversion of the issued convertible bond led to a transfer to capital reserve in the amount of EUR 591.0 million.

In addition, cumulative other reserves declined by EUR 13.0 million due to the recognition of an obligation for future guarantee payments. This obligation is to the non-controlling interests of the three companies acquired as at 31 December 2019.

Ending the cooperation with innogy generated a positive equity effect of EUR 9.3 million.

T74

Non-controlling interest in other comprehensive income

€ million	**31.12.2019**	31.12.2018
Actuarial gains and losses from the measurement of pension obligations	0.0	0.0
Fair value adjustments comprehensive income	0.0	0.0
Non-controlling interest in other comprehensive income	**0.0**	**0.0**

9| Pension provisions

Expenses for defined contribution plans amounted to EUR 4.9 million in the year under review (2018: EUR 4.7 million). These essentially comprise contributions to the statutory pension scheme.

In connection with defined benefit plans, the LEG Group uses actuarial calculations by actuaries to ensure that future developments are taken into account in the calculation of expenses and obligations. Among other things, these calculations are based on assumptions regarding the discount rate and future wage and salary developments.

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

T75

Calculation of pension provisions

in %	**31.12.2019**	31.12.2018
Discounting rate	0.75	1.70
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 2019 (present value of obligation as at 31 December 2019: EUR 171.9 million):

T76

Sensitivity of pension provisions 2019

€ million		
Discount rate (increase and decrease by 0.5 % pts.)	159.0	185.8
Salary trend (increase and decrease by 0.5 % pts.)	173.3	169.9
Mortality (increase and decrease by 10 %)	164.6	179.5
Pension trend (increase and decrease by 0.25 % pts.)	176.7	166.6

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2018 (present value of obligation as at 31 December 2018: EUR 149.3 million):

T77

Sensitivity of pension provisions 2018

€ million		
Discount rate (increase and decrease by 0.5 % pts.)	139.1	160.8
Salary trend (increase and decrease by 0.5 % pts.)	150.7	147.9
Mortality (increase and decrease by 10 %)	143.7	155.7
Pension trend (increase and decrease by 0.25 % pts.)	153.5	145.3

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 % points). 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.

T78

Development of pension obligations

€ million	**2019**	2018
Present value of obligations as of 01.01.	**149.3**	**155.6**
Service cost	1.5	1.6
Interest expenses	2.5	2.4
Disposals	–	–
Payments	–6.7	–6.7
Remeasurement	25.3	–3.6
Thereof losses (gains) from changes in experience	2.6	–3.1
Thereof losses (gains) arising from changes in financial assumptions	22.7	–2.2
Thereof losses (gains) arising from changes in demographic assumptions	–	1.7
Present value of obligations as of 31.12.	**171.9**	**149.3**

EUR 52.8 million of the present value of the obligation relates to current employees covered by the plan (2018: EUR 40.9 million), EUR 15.1 million to employees who have left the company and whose rights are not yet vested (2018: EUR 12.5 million) and EUR 104.0 million to pensioners (2018: EUR 95.9 million).

A pension payment of EUR 6.9 million (2019: EUR 6.9 million) is expected for 2020. The duration of the defined benefit obligation is 14.8 years (2018: 13.9 years).

10 | Other provisions

Other provisions are composed as follows:

T79

Other provisions

€ million	**31.12.2019**	31.12.2018
Provisions for partial retirement	1.9	1.3
Staff provisions	**1.9**	**1.3**
Construction book provisions	2.6	3.1
Provisions for other risks	17.9	14.6
Provisions for litigation risks	0.8	1.1
Provisions for lease properties	0.3	0.4
Provision for costs of annual financial statements	1.1	1.3
Archiving provision	0.8	0.5
Other provisions	**23.5**	**21.0**

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 20.2 million within one year (previous year: EUR 17.8 million) and EUR 5.2 million after one year (previous year: EUR 4.6 million).

11 | Financing liabilities

Financing liabilities are composed as follows:

T80

Financing liabilities

€ million	**31.12.2019**	31.12.2018
Financing liabilities from real estate financing	4,973.4	4,575.0
Financing liabilities from lease financing	80.5	23.1
Financing liabilities	**5,053.9**	**4,598.1**

Financing liabilities from property financing serve the financing of investment properties.

The consolidated financial statements of LEG Immo reported financial liabilities from real estate financing of EUR 4,973.4 million as at 31 December 2019.

Financing liabilities from real estate financing include a convertible bond with a nominal value of EUR 400 million and an IFRS carrying amount of EUR 387.3 million as well as three corporate bonds one with a nominal value of EUR 500.0 million (IFRS carrying amount of EUR 502.0 million), one with a nominal amount of EUR 300 million (IFRS carrying amount of EUR 295.0 million) and one with a nominal amount of EUR 500 million (IFRS carrying amount of EUR 494.5 million).

Financing liabilities from real estate financing increased largely due to the issue of a corporate bond with two tranches amounting to EUR 300 million (IFRS carrying amount EUR 295.0 million) and EUR 500 million (IFRS carrying amount EUR 494.5 million). Additional utilisation of bank loans with an IFRS carrying amount of EUR 313.1 million and amortisation effects from the effective interest rate method of EUR 34.9 million increased financial liabilities from real estate financing. This was countervailed by scheduled and unscheduled repayments of loans amounting to EUR 741.8 million. This includes the conversion of the EUR 300 million convertible bond issued in 2014. Here interest is calculated on the basis debt component of the nominal value of the convertible bond of EUR 300 million and there is a final valuation of the embedded derivative. Subsequently the two components are reclassified in equity, resulting in a corresponding decrease in the level of financial liabilities and the embedded derivatives.

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 525.3 million in the 2019 financial year (2018: EUR 496.7 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.

Financing liabilities from lease financing rose primarily as a result of the initial application of IFRS 16. As at 1 January 2019, additional lease liabilities of EUR 55.6 million were recognised, which had been classified as operate leases.

Already concluded leases starting after the reporting date will result in cash outflows in the amount of EUR 0.4 million.

a) Financing liabilities from real estate financing
The maturities shown in the consolidated financial statements are based on the contractually agreed maturities.

The remaining terms of financing liabilities from real estate financing are composed as follows:

T81

Maturity of financing liabilities from real estate financing

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2019	**187.5**	**1,456.3**	**3,329.6**	**4,973.4**
31.12.2018	479.1	920.8	3,175.1	4,575.0

b) Financing liabilities from lease financing
Financing liabilities from lease financing are composed as follows:

T82

Maturity of financing liabilities from lease financing

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2019	**9.5**	**21.3**	**49.7**	**80.5**
31.12.2018	5.7	11.0	6.4	23.1

12 | Other liabilities

Other liabilities are composed as follows:

T83

Other liabilities

€ million	**31.12.2019**	31.12.2018
Interest derivatives	99.3	283.1
Advance payments received	35.3	40.5
Liabilities from shareholder loans	0.6	0.6
Trade payables	140.9	101.1
Rental and lease liabilities	26.3	21.0
Liabilities from other taxes	– 0.2	0.8
Liabilities to employees	7.4	10.1
Social security liabilities	0.1	0.1
Operating cost liabilities	1.6	0.6
Interest benefit recognised as a liability	4.9	4.9
Other miscellaneous liabilities	75.7	68.0
Other liabilities	**391.9**	**530.8**
Thereof with a remaining term up to 1 year	239.2	396.1
Thereof with a remaining term of between 1 – 5 years	25.5	25.0
Thereof with a remaining term of more than 5 years	127.2	109.7

The decrease in other liabilities resulting from derivative financial instruments result primarily from the conversion of the convertible bond issued in 2014.

13 | Deferred tax assets and liabilities

Deferred tax assets and liabilities result from temporary differences between the IFRS and tax carrying amounts and tax loss carryforwards and are broken down as follows:

T84

Deferred tax assets and liabilities

€ million	31.12.2019 Deferred tax assets	31.12.2019 Deferred tax liabilities	31.12.2018 Deferred tax assets	31.12.2018 Deferred tax liabilities
Non-current assets				
Investment properties	0.3	1,386.3	3.0	1,154.7
Other miscellaneous non-current assets	1.5	10.6	1.8	7.6
Current assets	2.2	3.0	2.4	4.3
Non-current liabilities				
Pension provisions	29.7	–	23.1	–
Other provisions	1.0	5.0	0.8	–
Other non-current liabilities	35.6	23.8	12.6	30.8
Current liabilities				
Other provisions	0.9	0.3	2.0	19.4
Other current liabilities	8.8	1.6	31.5	0.6
Total deferred taxes from temporary differences	**80.0**	**1,430.6**	**77.2**	**1,217.4**
Deferred taxes on loss carryforwards	30.8	–	47.0	–
Total deferred taxes	**110.8**	**1,430.6**	**124.2**	**1,217.4**
Netting	99.3	99.3	116.8	116.8
Carrying amount	**11.5**	**1,331.3**	**7.4**	**1,100.6**

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.

T85

Deferred tax assets from tax loss

€ million	31.12.2019	31.12.2018
Corporation tax	13.7	22.6
Trade tax	17.1	24.4
Total	**30.8**	**47.0**

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 447.4 million as at the end of the reporting period (previous year: EUR 414.1 million). Tax loss carryforwards are generally not vested.

Interest expenses are tax-deductible up to the amount of interest income. Above and beyond this amount, deductibility is limited to 30 % of taxable EBITDA for the financial year (interest barrier), unless the exemption limit or the equity escape clause comes into force.

Non-deductible interest expenses in the current financial year are carried forward to subsequent periods. Deferred tax assets are recognised for interest carried forward only 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 in 2012 and the resulting fiscal entity for corporation and trade tax purposes, the interest barrier does not apply to the fiscal entity, as was the case in the previous year.

In the 2019 financial year, the remeasurement of primary and derivative financial instruments increased equity by EUR 3.3 million (previous year: decrease in equity of EUR 2.7 million), while actuarial gains and losses increased equity by EUR 7.4 million (previous year: decrease in equity of EUR 1.1 million). As at the end of the reporting period, deferred tax assets recognised directly in equity amounted to EUR 29.6 million (previous year: EUR 18.9 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 33.7 million (previous year: EUR 24.2 million).

F. Notes to the consolidated statement of comprehensive income

1 | Revenue

The LEG Group generates revenue from the transfer of goods and services both over a period in time and a point in time from the following areas:

T86

Revenues

€ million	2019 Rental and lease income	2019 Income from the disposal of investment properties	2019 Revenues from other services
Timing of revenue recognition			
At a certain point of time	–	195.3	9.5
Over a period of time	809.4	–	–
Total	**809.4**	**195.3**	**9.5**

T87

Revenues

€ million	2018 Rental and lease income	2018 Income from the disposal of investment properties	2018 Revenues from other services
Timing of revenue recognition			
At a certain point of time	–	29.5	11.7
Over a period of time	766.9	–	–
Total	**766.9**	**29.5**	**11.7**

The following overview summarises the assessment of whether a contract with a customer satisfies the definition of IFRS 15 and whether the LEG Group qualifies as a principal (gross revenue) or an agent (net revenue) in sales:

T88

Allocable operating costs

€ million	Principal – agent relations acc. to IFRS 15	2019	2018
Operating costs – land tax	–	30.2	24.4
Operating costs – cold water supply	Agent	35.1	35.1
Operating costs – draining	Agent	24.7	23.7
Operatings costs – hot water supply	Principal	0.5	0.4
Operatings costs – elevator	Principal	3.0	3.9
Operatings costs – waste disposal	Principal	33.5	33.4
Operatings costs – vermin control	Principal	0.6	0.5
Operatings costs – gardening	Principal	15.3	14.4
Operatings costs – chimney sweep	Principal	1.3	1.2
Operatings costs – caretaker	Principal	0.3	0.5
Operatings costs – property and liability insurance	–	26.6	23.7
Operatings costs – washing facilites	–	0.2	0.2
Operatings costs – smoke alarms	–	0.7	0.7
Operatings costs – heating costs/heat supply	Principal	45.5	43.9
Operatings costs – street cleaning	Agent	6.3	7.8
Operatings costs – cleaning of building	Principal	6.2	5.4
Operatings costs – lightning	Principal	–0.5	2.0
Operatings costs – cabel and TV multimedia	Principal	2.7	4.6

Assets and liabilities from customer contracts

T89

Assets and liabilities from customer contracts

€ million	2019	2018
Current assets from ancillary costs	9.4	4.6
Impairment of ancillary costs	0.8	n/a
Total assets from customer contracts	**10.2**	**4.6**
Current liabilities from customer contracts	– 33.0	– 38.5
Total liabilities from customer contracts	**– 33.0**	**– 38.5**

Revenues from operating costs relate to contracts with customers which separately amounted to EUR 284.6 million at the beginning of the period (previous year: EUR 271.9 million). These are countered by nettable assets of EUR 269.3 million (previous year: EUR 250.7 million).

2 | Net rental and lease income

T90

Net rental and lease income

€ million	2019	2018
Net cold rent	586.1	560.2
Net income from operating costs	– 2.8	– 4.5
Maintenance expenses for externally procured services	– 61.0	– 51.8
Employee benefits	– 68.2	– 60.3
Impairment losses on rent receivables	– 7.9	– 8.4
Depreciation	– 10.0	– 6.1
Others	– 1.2	– 10.5
Net rental and lease income	**435.0**	**418.6**
Net operating income margin (in %)	**74.2**	**74.7**
Non-recurring project costs – rental and lease	8.3	5.8
Depreciation	10.0	6.1
Net rental and lease income	**453.3**	**430.5**
Net operating income margin (in %)	**77.3**	**76.8**

The LEG Group increased its net rental and lease income by EUR 25.9 million (4.6 %) against the comparative period. In-place rent per square metre on a like-for-like basis rose by 2.9 % in the reporting period.

Moreover the lease accounting in accordance with IFRS 16 resulted in an improvement of profit from operating expenses (EUR 1.2 million) and other (EUR 4.3 million) with a simultaneous increase in depreciation and amortisation expenses (EUR 3.0 million). The increase in staff costs by EUR 7.9 million mainly resulted from higher expenses for the in-house craftsman organisation.

Adjusted net rental and lease income rose by 5.3 %, slightly more strongly than the rental trend. As a result, the adjusted net operating income (NOI) margin further increased to 77.3 % in the 2019 financial year (previous year: 76.8 %).

Depreciation and amortisation expenses rose primarily as a result of the initial application of IFRS 16. In the reporting period the following depreciation expenses for right of use from leases are included in net rental and lease income.

T91

Depreciation expenses of leases

€ million	2019
Right of use buildings	0.1
Right of use technical equipment and machines	4.9
Right of use operating and office equipment	2.0
Depreciation expenses of leases	**7.0**

In the reporting period depreciation expenses of leases of a low-value asset in the amount of EUR 0.3 million were included.

3 | Net income from the disposal of investment properties

Net income from the disposal of investment properties is composed as follows:

T92

Net income from the disposal of investment properties

€ million	2019	2018
Income from the disposal of investment properties	195.3	29.5
Carrying amount of investment properties disposed of	– 195.5	– 29.5
Income/loss from the disposal of investment properties	**– 0.2**	**–**
Valuation gains due to disposal	0.2	1.8
Adjusted income/loss from the disposal of investment properties	**0.0**	**1.8**
Staff costs	– 0.6	– 0.6
Other operating expenses	– 0.5	– 0.3
Cost of sale in connection with investment properties sold	**–1.1**	**– 0.9**
Net income from the disposal of investment properties	**– 1.3**	**– 0.9**

Disposals of investment properties increased in the reporting period.

Sales of investment properties amounted to EUR 195.3 million and related largely to a block sale notarised in the 2019 financial year.

4 | Net income from the remeasurement of investment properties

Net income from the remeasurement of investment property amounted to EUR 923.4 million in 2019 (2018: EUR 800.9 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 8.3 % (2018: 8.2 %).

The average value of residential investment property (including IFRS 5 properties) was EUR 1,353 per square metre as at 31 December 2019 (31 December 2018: EUR 1,198 per square metre) including acquisitions and EUR 1,346 per square metre not including acquisitions. Including investments in modernisation and maintenance work, the average portfolio value thus developed by 12.4 % in the financial year (2018: 10.3 %).

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

5 | Net income from other services

Net income from other services is composed as follows

T93

Net income from other services

€ million	2019	2018
Income from other services	**9.5**	**11.7**
Purchased services	– 0.7	– 0.9
Other operating expenses	– 1.8	– 2.1
Employee benefits	– 0.9	– 0.9
Depreciation, amortisation and write-downs	– 2.8	– 2.5
Expenses in connection with other services	**– 6.2**	**– 6.4**
Net income from other services	**3.3**	**5.3**

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

Due to a lengthy inventory of the biomass combined heat and power station, the very good operating results of the electricity and heat generated in the previous year were not achieved in the 2019 financial year.

6 | Administrative and other expenses

Administrative and other expenses are composed as follows:

T94

Administrative and other expenses

€ million	2019	2018
Other operating expenses	– 31.5	– 17.5
Staff costs	– 30.1	– 24.8
Purchased services	– 1.1	– 0.9
Depreciation, amortisation and write-downs	– 3.4	– 1.6
Administrative and other expenses	**– 66.1**	**– 44.8**

The other operating expenses contained in the table above are composed as follows:

T95

Other operating expenses

€ million	2019	2018
Legal and consulting costs	– 8.3	– 7.9
Rent and other costs of business premises	– 4.1	– 4.2
Annual financial statement, accounting and audit costs	– 2.1	– 2.0
Expenses for postage, telecommunications, IT	– 0.5	– 0.5
Temporary staff	– 0.1	– 0.7
Vehicles	– 0.4	– 0.4
Travel expenses	– 0.6	– 0.5
Advertising expenses	– 0.4	– 0.5
Other expenses	– 4.7	– 1.1
Others	– 10.3	0.3
Other operating expenses	**– 31.5**	**– 17.5**

The main driver for the increase in administrative and other expenses of EUR 21.3 million was the increase in other operating expenses and staff costs by EUR 5.3 million due to higher severance pay. The other expenses in other operating expenses included donations to the “Your Home Helps” foundation and countervailing non-recurring income from ending the cooperation with innogy. Other expenses related to the real estate transfer tax from a purchase in 2016.

Adjusted administrative expenses decreased moderately by – 2.40 % to EUR 33.2 million and thus in the opposite direction to rental and lease income.

Depreciation and amortisation expenses rose primarily as a result of the initial application of IFRS 16. In the reporting period the following depreciation expenses for right of use from leases are included.

T96

Depreciation expense of leases

€ million	2019
Right of use buildings	2.0
Right of use operating and office equipment	0.3
Right of use software	0.1
Depreciation expense of leases	**2.4**

In the reporting period depreciation expenses of leases of a low-value asset in the amount of EUR 0.1 million were included.

7 | Interest expenses

Interest expenses are composed as follows:

T97

Interest expenses

€ million	**2019**	2018
Interest expenses from real estate and bond financing	– 68.6	– 67.4
Interest expense from loan amortisation	– 34.9	– 14.0
Prepayment penalty	– 27.6	– 0.1
Interest expense from interest derivatives for real estate financing	– 7.9	– 10.4
Interest expense from change in pension provisions	– 2.5	– 2.4
Interest expense from interest on other assets and liabilities	– 6.5	– 0.4
Interest expenses from lease financing	– 2.2	– 0.8
Other interest expenses	– 2.9	– 13.8
Interest expenses	**– 153.1**	**– 109.3**

Interest expense from loan amortisation increased by EUR 20.9 million year on year to EUR 34.9 million. The main driver for the increase is the conversion and the resulting interest on the basis debt component of the formerly outstanding convertible bond in the amount of EUR 17.7 million. From the early payments of bank and subsidised loans there were total expenses from loan amortisation of EUR 4.6 million. Expenses were further reduced by positive valuation effects from subsidised loans in connection with IFRS 9.B5.4.6, relating to a change in the assumptions on the expected future cash flows of the subsidised loans.

Interest expenses from loan amortisation include the measurement effect of the convertible bonds and the corporate bond of EUR 21.3 million (previous year: EUR 10.0 million).

The increase in prepayment penalties to EUR 27.6 million resulted from the early payment of bank and subsidised loans.

The increase in interest on other assets and liabilities resulted in the measurement of the put options.

The increase of interest expenses from lease financing (EUR 1.4 million) resulted from the initial application of IFRS 16.

The decline in other interest expense resulted primarily from refinancing interest rate derivatives in the previous year which resulted in non-recurring effects of EUR – 13.5 million. The lower number of interest rate derivatives also had the effect of reducing interest expenses from interest rate derivatives.

8 | Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of standalone derivatives and the ineffective portion of interest hedging instruments are reported in net income from the fair value measurement of derivatives.

The net income from the fair value measurement of derivatives in the past financial year was EUR – 96.1 million (previous year: EUR 25.4 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of the embedded derivative from the convertible bond of EUR – 94.8 million (previous year: EUR 26.5 million).

Ineffective hedges of EUR 0.0 million (previous year: EUR 0.2 million) were reportable for the 2019 financial year.

9 | Income taxes

Income tax expense and income are broken down by origin as follows:

T98

Income taxes

€ million	2019	2018
Current income taxes	– 15.0	– 6.5
Deferred taxes	– 215.2	– 242.8
Income taxes	**– 230.2**	**– 249.3**
Tax reimbursement for prior years	0.1	0.3

Based on the consolidated net profit before income taxes and the expected income tax expense, the reconciliation to current income taxes is as follows:

T99

Reconciliation to current income tax expenses

€ million	2019	2018
IFRS earnings before income taxes	1,051.3	1,096.4
Group tax rate in %	31.2	31.2
Forecast income taxes	**– 328.3**	**– 342.1**
Tax reduction due to tax-free income and off-balance sheet deductions	111.3	101.0
Additional taxes due to non-deductible expenses and off-balance sheet additions	– 9.5	– 4.2
Tax effect due to deferred tax assets on tax losses carryforwards and not recognised deferred tax assets due to lack of recoverability	– 2.2	– 4.0
Tax expenses relating to prior periods	– 1.4	– 0.1
Tax decreases/increases due to changes in tax rate	–	–
Other	– 0.2	0.1
Income taxes as per statement of comprehensive income	**– 230.2**	**– 249.3**
Effective tax rate in %	21.9	22.7

The deferred taxes from non-current assets and non-current liabilities are expected to reverse after more than twelve months after the end of the reporting period.

The tax rate applied in calculating theoretical income tax takes into account the current and expected future tax rates for corporate income tax (15 %), the solidarity surcharge (5.5 % of corporate income tax) and trade tax (15.4 %) based on a basic rate of 3.5 % and an average assessment rate of 440 % (city of Dusseldorf).

10 | Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the shareholders by the average number of shares outstanding during the financial year.

T100

Earnings per share (basic)

	2019	2018
Net profit or loss attributable to shareholders in € million	817.2	843.0
Average numbers of shares outstanding	64,820,501	63,188,185
Earnings per share (basic) in €	**12.61**	**13.34**

T101

Earnings per share (diluted)

	2019	2018
Net profit or loss attributable to shareholders in € million	817.2	843.0
Convertible bond coupon after taxes	2.7	3.9
Measurement of derivatives after taxes	82.5	– 26.5
Amortisation of the convertible bond after taxes	13.5	7.5
Net profit or loss for the period for diluted earnings per share	915.9	827.9
Average weighted number of shares outstanding	64,820,501	63,188,185
Number of potentially new shares in the event of exercise of conversion rights	8,323,909	9,022,414
Number of shares for diluted earnings per share	73,144,410	72,210,599
Intermedia result	**12.52**	**11.47**
Diluted earnings per share in €	**12.52**	**11.47**

On 2 September 2019 LEG Immo announced the early redemption of its convertible bond 2014/2021. A full conversion of the bondholders has occurred, resulting in at total of 5,821,651 new shares being created.

As at 31 December 2019, LEG Immo had potential ordinary shares from convertible bonds, which authorise the bearer to convert it into up to 8.3 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, the amortisation of the convertible bond and the resulting tax effect in the event of the conversion rights being exercised in full.

EPRA earnings per share – not an IFRS indicator

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

T102

EPRA earnings per share

€ million	Q4 2019	Q4 2018	**2019**	2018
Net profit or loss for the period attributable to parent shareholders	331.0	437.9	817.2	843.0
Changes in value of investment properties	– 371.8	– 417.4	– 923.4	– 800.9
Profits or losses on disposal of investment properties, development properties held for investment, other interests and sales of trading properties including impairment charges in respect of trading properties	– 0.7	0.3	2.1	2.5
Tax on losses on disposals and real estate inventory	9.4	0.4	12.3	1.1
Changes in fair value of financial instruments and associated close-out costs	3.5	– 74.6	96.1	– 25.4
Acquisition costs on share deals and non-controlling joint venture interests	11.4	0.1	11.4	0.8
Deferred tax in respect of EPRA-adjustments	86.6	143.1[1]	211.9	232.8
Refinancing expenses	20.3	0.1	25.2	1.1
Other interest expenses	2.7	13.7	2.9	13.8
Non-controlling interests in respect of the above	0.1	– 0.1	0.4	0.2
EPRA earnings	**92.5**	**103.5[1]**	**256.1**	**269.0**
Weighted average number of shares outstanding	69,001,211	63,188,185	64,820,501	63,188,185
= EPRA earnings per share (undiluted) in €	1.34	1.64[1]	3.95	4.26
Potentially diluted shares	2,822,177	5,635,729	4,912,532	5,635,729
Interest coupon on convertible bond after taxes	–	0.3	–	1.2
Amortisation expenses convertible bond after taxes	– 1.5	1.4	11.7	5.7
EPRA earnings (diluted)	91.0	105.2[1]	267.8	275.9
Number of diluted shares	71,823,388	68,823,914	69,733,033	68,823,914
= EPRA earnings per share (diluted) in €	**1.28**	**1.53[1]**	**3.84**	**4.01**

[1] Adjustment of previous year's figure due to change in calculation

G. Notes to the consolidated statement of cash flows

1 | Composition of cash and cash equivalents

The cash and cash equivalents shown in the statement of cash flows correspond to the cash and cash equivalents reported in the statement of financial position, i.e. cash on hand and bank balances.

2 | Other notes to the statement of cash flows

For the three companies of the Baum Group which were consolidated for the first time in accordance with IFRS 3, LEG Immo paid EUR 247.8 million including bank balances of EUR 0.6 million. Payments for the purchase of the remaining stake in EnergieServicePlus GmbH totalled EUR 17.5 million.

LEG Immo received EUR 100.0 million from the issue of private placements in the financial year and EUR 800 million from issuing a corporate bond.

In addition, LEG Immo received EUR 0.7 million in capital contributions from ESP as in the previous year.

Distribution to non-controlling interests relate to the non-controlling interest in ESP of EUR 1.4 million, the non-controlling interest in Solis GmbH of EUR 4.5 million and the non-controlling interest in TSP of EUR 1.8 million.

The cash payments for the acquisition of companies in accordance with IFRS 3 are recognised as cash payments for consolidated companies, while payments related to acquisitions not in accordance with IFRS 3 are presented as cash payments for investment properties.

The cash outflow for the repayment of bank loans also included prepayment penalties and payments for the reversal of hedges incurred due to early loan repayments.

The other disposal in financing liabilities of EUR 283.3 million results for the conversion in LEG Immo equity of the convertible bond issued in 2014.

T103

Reconciliation financial liabilities 2019

			Non-Cash Changes				
€ million	01.01.2019	Cash Flows	Acquisition	Changes in fair value	Amortisation from effective interest method	Others	**31.12.2019**
Financial liabilities	4,575.0	646.8	–	–	34.9	– 283.3	4,973.4
Lease liabilities	81.9[1]	– 10.7	9.3	–	–	–	80.5
Total	**4,656.9**	**636.1**	**9.3**	**–**	**34.9**	**– 283.3**	**5,053.9**

[1] Adjustment of previous year's figure due to first time application of IFRS 16

T104

Reconciliation financial liabilities 2018

			Non-Cash Changes				
€ million	01.01.2018	Cash Flows	Acquisition	Changes in fair value	Amortisation from effective interest method	Others	31.12.2018
Financial liabilities	4,273.9	290.3	–	–	14.0	– 3.2	4,575.0
Lease liabilities	25.7	– 4.6	2.0	–	–	–	23.1
Total	**4,299.6**	**285.7**	**2.0**	**–**	**14.0**	**– 3.2**	**4,598.1**

H. Notes on Group segment reporting

As a result of the revision of internal management reporting, LEG Immo has no longer been managed as two segments since the 2016 financial year. The Group is now managed as one segment.

I. Other disclosures

1 | Overview of cost types

The following cost types are contained in the various functions:

T105

Cost types

€ million	**2019**	2018
Purchased services	264.6	244.8
Employee benefits	100.9	87.7
Depreciation, amortisation and write-downs	16.2	10.3
Other operating expenses	69.2	60.0

Other operating expenses include income from the reversal of write-downs and provisions.

T106

Employee benefits

€ million	**2019**	2018
Wages and salaries	83.5	73.8
Social security	16.0	12.5
Pension and other benefits	1.4	1.4
Total	**100.9**	**87.7**

2 | Capital management

The aim of the LEG 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 LEG Group.

This end-to-end capital management strategy has not changed since the previous year.

As is typical for the industry, the LEG Group monitors capital on the basis of loan-to-value (LTV). LTV describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from financing liabilities.

As in the previous year, the LEG 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 2019 and 31 December 2018 was calculated as follows:

T107

Net gearing (LTV)

€ million	**31.12.2019**	31.12.2018
Financing liabilities	5.053.9	4.598.1
Minus lease liabilities IFRS 16 (not land lease)	31.8	–
Cash and cash equivalents	451.2	233.6
Net debt	**4,570.9**	**4,364.5**
Investment properties	12,031.1	10.709.0
Assets held for sale	25.2	20.3
Prepayments for investment properties	53.5	–
Total	**12,109.8**	**10,729.3**
Net gearing (LTV) in %	**37.7**	**40.7**

The assets held for sale shown in the above table relate solely to investment property.

The Group is subject to covenants that were not breached in either the year under review or the previous year. The aims of capital management were achieved in the year under review.

Details of restricted funds can be found in > **section E. 6**.

3 | Financial instruments

a) Other disclosures on financial instruments

The table below shows the financial assets and liabilities broken down by measurement category and class. Receivables and liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an IFRS 9 measurement category. Non-financial assets and non-financial assets are also included for the purposes of reconciliation even though they are not covered by IFRS 7:

T108

Classes of financial instruments for financial assets and liabilities 2019

€ million	Carrying amounts as per statement of financial positions 31.12.2019	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2019
Assets					
Other financial assets	**23.2**				**23.2**
AC	11.2	11.2			11.2
FVtPL	12.0		12.0		12.0
Hedge accounting derivatives	–				–
Receivables and other assets	**82.0**				**82.0**
AC	76.7	76.7			76.7
Other non-financial assets	5.3				5.3
Cash and cash equivalents	**451.2**				**451.2**
AC	451.2	451.2			451.2
Total	**556.4**	**539.1**	**12.0**		**556.4**
Of which IFRS 9 measurement categories					
AC	539.1	539.1			539.1
FVtPL	12.0	12.0			12.0

AC = Amortised Cost
FVtPL = Fair Value through profit and loss

€ million	Carrying amounts as per statement of financial positions 31.12.2019	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2019
Equity and liabilities					
Financial liabilities	**– 5,053.9**				**– 5,306.8**
FLAC	– 4,973.4	– 4.973.4			– 5,306.8
Liabilities from lease financing	– 80.5			– 80.5	
Other liabilities	**– 391.9**				**– 391.9**
FLAC	– 126.8	– 126.8			– 126.8
Derivatives HFT	– 60.3		– 60.3		– 60.3
Hedge accounting derivatives	– 39.0				– 39.0
Other non-financial liabilities	– 165.8				– 165.8
Total	**– 5,445.8**	**– 5,100.2**	**– 60.3**	**– 80.5**	**– 5,698.7**
Of which IFRS 9 measurement categories					
FLAC	– 5,100.2	– 5,100.2			– 5,433.6
Derivatives HFT	– 60.3		– 60.3		– 60.3

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

T109

Classes of financial instruments for financial assets and liabilities 2018

€ million	Carrying amounts as per statement of financial positions 31.12.2018	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2018
Assets					
Other financial assets	**10.7**				**10.7**
AC	1.5	0.1			0.1 [1]
FVtPL	9.2		9.2		9.2 [1]
Hedge accounting derivatives	–				–
Receivables and other assets	**47.7**				**47.7**
AC	38.1	38.1			38.1
Other non-financial assets	9.6				9.6
Cash and cash equivalents	**233.6**				**233.6**
AC	233.6	233.6			233.6
Total	**292.0**	**271.8**	**9.2**		**292.0**
Of which IFRS 9 measurement categories					
AC	273.2	271.8			271.8
FVtPL	9.2		9.2		9.2

[1] Vorjahreszahl angepasst
AC = Amortised Cost
FVtPL = Fair Value through profit and loss

€ million	Carrying amounts as per statement of financial positions 31.12.2018	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IAS 17)	Fair value 31.12.2018
Equity and liabilities					
Financial liabilities	**–4,598.1**				**–4,747.4**
FLAC	–4,575.0	–4.575.0			–4,724.0
Liabilities from lease financing	–23.1			–23.1	–23.4
Other liabilities	**–530.8**				**–530.3**
FLAC	–109.4	–109.4			–108.9
Derivatives HFT	–262.2		–262.2		–262.2
Hedge accounting derivatives	–20.8				–20.8
Other non-financial liabilities	–138.4				–138.4
Total	**–5,128.9**	**–4,684.4**	**–262.2**	**–23.1**	**–5,277.7**
Of which IFRS 9 measurement categories					
FLAC	–4,684.4	–4,684.4			–4,832.9
Derivatives HFT	–262.2		–262.2		–262.2

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

As at 31 December 2019, the fair value of the very small equity investments was EUR 12.0 million. This results in a change of EUR 2.9 million against the previous year (previous year: EUR 9.1 million) which was recognised in profit or loss.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. Allocation to Level 3 takes place based on valuation models with inputs not observed on a market. This relates primarily to the capitalisation rate of 4.8 %. As at 31 December 2019, the fair value of the very small equity investments was EUR 12.1 million. The stress test of this parameter on the basis of plus 50 basis points results in the fair value being EUR 11.0 million lower and at minus 50 basis points EUR 13.2 million higher.

Trade payables and other liabilities generally have short remaining terms, hence their carrying amounts approximate their fair value.

Originated financial instruments (liabilities from real estate and corporate financing, FLAC category), whose fair value does not correspond to their carrying amount are classified as financial liabilities. The fair value of loan liabilities is calculated as the present value of the future cash flows, taking into account the applicable risk-free interest rates and the LEG-specific risk premium as at the end of the reporting period.

Net income for each measurement category is broken down as follows:

T110

Net income

€ million	**2019**
AC	–4.2
FVtPL (assets)	6.0
FVtPL (liabilities)	–96.1
FLAC	–131.2
Total	**–225.5**

T111

Net income

€ million	2018
AC	–6,5
FVtPL (assets)	1,2
FVtPL (liabilities)	25,0
FLAC	–82,2
Total	**–62,5**

AC = Amortised Cost
FVtPL = Fair Value through profit and loss
FLAC = Financial Liabilities at Cost

Net income contains remeasurement effects in addition to interest income and expenses during the financial year.

b) Risk management

Principles of risk management:

The LEG Group is exposed to default risk, liquidity risk and market risk as a result of its use of financial instruments. In order to take these risks into account, the LEG Group has an effective risk management system supported by the clear functional organisation of the risk controlling process.

The effectiveness of the risk management system is reviewed and assessed regularly on a company-wide basis by the Internal Audit and Compliance unit. Where adjustments are necessary or areas for improvement are identified, the Internal Audit and Compliance unit advises on, examines and monitors these activities.

The framework for the Group's financial policy is determined by the Management Board and monitored by the Supervisory Board. The implementation of financial policy is the responsibility of the Corporate Finance and Treasury unit, while ongoing risk management is handled by Controlling and Risk Management. The use of derivative financial instruments is governed by a corresponding Treasury policy adopted by Management Board and acknowledged by the Supervisory Board. Derivative financial instruments can only be used to hedge existing underlyings, future cash flows and planned transactions whose occurrence is reasonably certain. Derivative financial instruments are concluded only to hedge against interest rate risks.

c) Default risk

Credit or default risk describes the risk that business partners – primarily the tenants of the properties held by the LEG Group – will be unable to meet their contractual payment obligations and that this will result in a loss for the LEG Group. In order to prevent and control default risk to the greatest possible extent, new lettings are subject to credit checks.

Default risk exists for all classes of financial instruments, and in particular for trade receivables. The LEG Group is not exposed to significant default risk with regard to any individual party. The concentration of default risk is limited due to the Group's broad, heterogeneous tenant base.

There are gross receivables from rental and leasing activities of EUR 23.4 million (previous year: EUR 25.3 million). Allowances of EUR 15.6 million (previous year: EUR 17.7 million) were recognised, hence net rent receivables of EUR 7.8 million were reported as at 31 December 2019 (previous year: EUR 7.6 million). Collateral for receivables (primarily rent deposits) of EUR 15.4 million (previous year: EUR 17.1 million) can be taken into account only under restrictive conditions in the offsetting of outstanding receivables.

Offsetting is only possible if the receivable being offset:
- is undisputed or
- has been ruled legally binding or
- is manifestly substantiated.

Offsetting by the lessor against receivables that are manifestly disputed or not covered by the lease (such as receivables from operating expenses) is not permitted. In addition, the restrictions of section 9(5) sentence 1 of the Wohnungsbindungsgesetz (WoBindG – German Controlled Tenancy Act) must also be noted in particular.

Allowances on rent receivables were essentially recognised using simplified IFRS 9 without taking collateral into account.

With regard to cash and cash equivalents and derivatives, the LEG Group enters into corresponding agreements only 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:

T112

Impaired financial assets 2019

€ million classes of financial instruments 31.12.2019	Carrying amount before impairment	Impairment	**Residual carrying amount**
Loans	0.2	–	0.2
Other financial assets	29.1	– 0.2	28.9
Trade receivables	30.6	– 16.2	14.4
Cash and cash equivalents	451.2	–	451.2
Total	**511.1**	**– 16.4**	**494.7**

T113

Impaired financial assets 2018

€ million classes of financial instruments 31.12.2018	Carrying amount before impairment	Impairment	Residual carrying amount
Loans	0.2	0.0	0.2
Other financial assets	23.9	– 0.4	23.5
Trade receivables	33.9	– 18.1	15.8
Cash and cash equivalents	233.6	–	233.6
Total	**291.6**	**– 18.5**	**273.1**

To calculate the expected credit losses for trade receivables, LEG uses the simplified approach of the "expected credit loss" model in accordance with IFRS 9 in order to take account of potential impairment of a receivable at initial recognition. Thus life-time expected credit losses are calculated for all trade receivables. In calculating the impairment rates for rent receivables, location-specific risk profiles are also taken into account within the individual past due ranges. This includes both the historical default rate for outstanding rent receivables and an assessment of the future development of a location as forward looking element.

Locations are divided into three categories (good, medium, poor), giving rise to the following impairment matrix in accordance with IFRS in the year under review (unchanged to the previous year):

T114

Impairment rates for rent receivables – IFRS 9

Age of rent receivable/ overdue period (days)	Status of lease	Impairment rate in %		
		Good location	Medium location	Poor location
0 to 60	active	–	25.0	45.0
61 to 90	active	8.0	35.0	55.0
91 to 120	active	10.0	37.0	57.0
121 to 180	active	13.0	40.0	60.0
more than 180	active	18.0	45.0	65.0
0 to 60	past	43.0	70.0	90.0
more than 60	past	60.0	87.0	100.0

The gross receivables are split by overdue ranges as well as location-specific risk parameters and comprise the rent receivables after netting with current tenant balances. With respect to the impairment rates, net rent receivables as at the reporting date are as follows:

T115

Impairment rates for rent receivables – IFRS 9
€ million

Age of rent receivable/ overdue period (days)	Status of lease	Gross receivables			Impairment in %	**Net receivables 31.12.2019**
		Good location	Medium location	Poor location		
0 to 60	active	0.3	1.1	3.2	1.7	2.9
61 to 90	active	0.1	0.2	0.6	0.4	0.5
91 to 120	active	0.1	0.2	0.5	0.4	0.4
121 to 180	active	0.0	0.2	0.5	0.4	0.3
more than 180	active	0.3	0.9	2.5	2.1	1.6
0 to 60	past	0.0	0.2	0.5	0.6	0.1
more than 60	past	0.5	2.2	7.3	9.6	0.4
		1.3	**5.0**	**15.1**	**15.2**	**6.2**

T116

Impairment rates for rent receivables – IFRS 9
€ million

Age of rent receivable/ overdue period (days)	Status of lease	Gross receivables			Impairment in %	Net receivables 31.12.2018
		Good location	Medium location	Poor location		
0 to 60	active	0.3	1.1	3.9	2.0	3.3
61 to 90	active	–	0.2	0.6	0.4	0.4
91 to 120	active	–	0.2	0.6	0.4	0.4
121 to 180	active	0.1	0.2	0.8	0.5	0.6
more than 180	active	0.2	0.6	2.2	1.8	1.2
0 to 60	past	–	0.2	0.9	1.0	0.1
more than 60	past	0.4	2.3	8.3	10.5	0.5
		1.0	**4.8**	**17.3**	**16.6**	**6.5**

For receivables from not yet invoiced operating costs and rent receivables not yet due, impairment of 12.4 % was taken for the first time in the year under review. The expected credit loss has been estimated on the basis of the historical loss rates of all items posted as due.

Rent receivables and receivables from ancillary costs are derecognised if fair assessment states that realisability has become non-existent.

Impairment losses broke down are as follows in the reporting year 2019 and in the comparable period of 2018:

T117

Impairment losses 2019

€ million	As of 01.01.2019	Change remeasurement	Addition	Utilisation	As of 31.12.2019
Trade receivables	18.1	–	11.7	– 13.6	16.2
Other financial assets	0.4	–	0.1	– 0.3	0.2
Total	**18.5**	**–**	**11.8**	**– 13.9**	**16.4**

T118

Impairment losses 2018

€ million	As of 01.01.2018	Change remeasurement	Addition	Utilisation	As of 31.12.2018
Trade receivables	14.5	1.9	15.1	– 13.4	18.1
Other financial assets	1.5	–	–	– 1.1	0.4
Total	**16.0**	**1.9**	**15.1**	**– 14.5**	**18.5**

d) Liquidity risks

The LEG Group defines liquidity risk as the risk that the Group will be unable to meet its own payment obligations at a contractually agreed date.

To ensure that this is not the case, the LEG Group's liquidity requirements are monitored and planned on an ongoing basis by the Corporate Finance and Treasury unit. Sufficient cash and cash equivalents to meet the Group's obligations for a defined period are available at all times. In addition, the LEG Group has credit facilities and bank overdrafts in the amount of around EUR 200.0 million (previous year: EUR 200.0 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.

T119

Type of liabilities on 31.12.2019

	Carrying amount	Remaining terms		
€ million		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	4,973.4	193.4	1,568.1	3,888.2
Financing liabilities from lease financing	80.6	11.7	27.6	86.9
Interest rate derivatives	39.0	8.2	23.9	6.6
Embedded derivatives	60.3	–	–	–
Liabilities to employees	7.4	7.0	–	0.4
Liabilities from operating costs	1.6	1.6	–	–
Rent and lease liabilities	26.3	26.3	–	–
Liabilities from shareholder loans	0.6	0.6	–	–
Trade payables	140.9	133.3	7.6	–
Others	47.1	7.6	11.6	27.9
Total	**5,377.2**	**389.7**	**1,638.8**	**4,010.0**

The embedded derivatives give rise only to indirect cash outflows over the term of the convertible bond. The cash outflows are included in the remaining terms of financial liabilities from loan liabilities and are reported there.

Together with the acquisition financing and refinancing, this leads to an increase and shift in the remaining terms of financial liabilities from loan liabilities.

T120

Type of liabilities on 31.12.2018

€ million	Carrying amount	Remaining terms		
		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	4,575.0	486.7	1,012.9	3,607.8
Financing liabilities from lease financing	23.1	5.2	13.5	22.2 [1]
Interest rate derivatives	20.8	7.6	17.7	– 3.8
Embedded derivatives	262.2	–	–	–
Liabilities to employees	10.1	9.4	–	0.7
Liabilities from operating costs	0.6	0.6	–	–
Rent and lease liabilities	21.0	21.0	–	–
Liabilities from shareholder loans	0.6	0.6	–	–
Trade payables	101.1	93.8	7.3	–
Others	61.8	6.5	10.9	44.4
Total	**5,076.3**	**631.4**	**1,062.3**	**3,671.3**

[1] The prior period amount was adjusted.

All instruments for which payments were contractually agreed as at the end of the reporting period are included. Forecast figures for future new liabilities are not included. Floating-rate interest payments for financial instruments are calculated using the most recent interest rates prior to the end of the reporting period. Financial liabilities that are repayable at any time are always allocated to the earliest repayment date.

Some of the LEG Group's loan agreements contain financial covenants. In the event of a failure to comply with the agreed covenants, the LEG Group generally has the opportunity to resolve the situation; however, certain cases of non-compliance can result in the bank having the right to terminate the loan agreement with immediate effect. In addition, some agreements provide the bank with the possibility of increasing interest and principal payments or demanding further security for compliance with the covenants in the event of non-compliance. In any case, a long-term failure to comply with the agreed covenants means that the financing bank is entitled to terminate the respective agreement. In connection with the unsecured financing, for example, bonds, covenants were agreed which can lead to termination rights in the case of non-compliance. Compliance with covenants is monitored on an ongoing basis. There were no violations of the agreed covenants in the 2019 financial year.

e) 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 92.3 % of financial liabilities are hedged in this way.

Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The Treasury policy prohibits the use of derivatives for speculative purposes.

The Group had the following derivative financial instruments as at 31 December 2019:

T121

Derivatives 31.12.2019

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivate – HFT – Liabilities	– 60.3	–
thereof from interest rate swaps	–	–
thereof embedded derivatives	– 60.3	–
Hedged derivatives	– 39.0	–

The Group had the following derivative financial instruments as at 31 December 2018:

T122

Derivatives 31.12.2018

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	–	–
thereof from interest rate swapss	–	–
Derivate – HFT – Liabilities	– 262.2	–
thereof from interest rate swaps	–	–
thereof embedded derivatives	– 262.2	–
Hedged derivatives	– 20.8	–

The derivatives entered into by the LEG Group are used as hedging instruments in accordance with IFRS 9 if they meet the conditions for hedge accounting. The cash flows from hedged items in cash flow hedge accounting will be received between 2019 and 2030 and will be recognised in profit or loss at the same time.

The following table shows the amount recognised directly in other comprehensive income in the period under review or reversed against interest expenses. This corresponds to the effective portion of the change in fair value:

T123

Equity implication

€ million	**2019**	2018
Operating balance as of 01.01.	**– 17.4**	**– 28.7**
Recognised in equity in reporting period	– 25.0	– 12.2
Reserved from equity to statement of comprehensive inome	7.6	23.5
Closing balance as of 31.12.	**– 34.8**	**– 17.4**

The effects of accounting for interest rate swaps on the net assets, financial position and results of operations of the Group are as follows:

T124

Effects from interest rate swap accounting

€ million	**2019**	2018
Hedging ratio	1:1	1:1
Weighted average interest rate in %	1.0	1.1
Change in fair value of outstanding hedging instruments	– 18.2	– 5.7
Change in the value of the underlying transaction	17.2	5.5
Notional amount of hedging instruments as of 31.12.2019	583.0	553.3
thereof due < 1 year	6.0	5.4
thereof due 1 to 5 years	167.6	170.5
thereof due > 5 years	409.4	377.4

f) 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 basis points 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:

T125

Financial instruments as at 31.12.2019

	Equity effect		Comprehensive income	
€ million	+ 50 bp	– 50 bp	+ 50 bp	– 50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	– 2.1	2.1
Interest rate derivatives	22.9	– 18.3	–	–
Embedded derivatives	–	–	– 6.6	17.5

T126

Financial instruments as at 31.12.2018

	Equity effect		Comprehensive income	
€ million	+ 50 bp	– 50 bp	+ 50 bp	– 50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	– 2.1	2.1
Interest rate derivatives	20.2	– 19.9	–	–
Embedded derivatives	–	–	– 18.3	14.5

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 Immo shares, with the other parameters for the company remaining unchanged, the fair value of the embedded derivatives would have been EUR 17.2 million higher (lower).

g) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T127

Financial assets (netted) € million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts,which are not netted in the balancesheet: Financial instruments	Received cash deposits	Net amount
31.12.2019						
Inventories in progress	269.6	– 260.2	9.4	–	–	9.4
Cash and cash equivalents	451.2	–	451.2	1.2	–	452.4
Total	**720.8**	**– 260.2**	**460.6**	**1.2**	**–**	**461.8**
31.12.2018						
Inventories in progress	250.9	– 246.4	4.5	–	–	4.5
Cash and cash equivalents	233.6	–	233.6	2.1	–	235.7
Total	**484.5**	**– 246.4**	**238.1**	**2.1**	**–**	**240.2**

The following financial liabilities are subject to offsetting:

T128

Financing liabilities (netted) € million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts,which are not netted in the balancesheet: Financial instruments	Received cash deposits	Net amount
31.12.2019						
Advanced payments received	– 293.2	260.2	– 33.0	–	–	– 33.0
Financing liabilities from real estate financing	– 4,973.4	–	– 4,973.4	1.2	–	– 4,972.2
Total	**– 5,266.6**	**260.2**	**– 5,006.4**	**1.2**	**–**	**– 5,005.2**
31.12.2018						
Advanced payments received	– 284.8	246.4	– 38.4	–	–	– 38.4
Financing liabilities from real estate financing	– 4,575.0	–	– 4,575.0	2.1	–	– 4,572.9
Total	**– 4,859.8**	**246.4**	**– 4,613.4**	**2.1**	**–**	**– 4,611.3**

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:

T129

Average number of employees

	2019		2018	
	Average number of employees	Employee capacity (FTE)	Average number of employees	Employee capacity (FTE)
Operations	735	669	717	630
Management	173	151	178	159
Special entities	457	437	419	393
Total	**1,365**	**1,257**	**1,314**	**1,182**

5 | Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T130

Total auditor's fees

€ million	2019	2018
Audits of financial statements	1.3	1.3
Other audit services	0.4	0.1
Other services	0.1	0.2
Total fee	**1.8**	**1.6**

The audit services primarily include fees for the audit of the consolidated financial statements and the legally prescribed audits of LEG Immo and the subsidiaries included in the consolidated financial statements. The fees for other audit services relate mainly to the preparation of a comfort letter in connection with the corporate bond issues and the audit review of the Sustainability Report. Other services include advisory services in connection with the analysis of finance information for EUR 0.1 million.

6 | IFRS 2 programmes

The employment agreements for members of the Management Board provide for a long-term incentive programme to be offered for each financial year. The programme is designed for a four-year period and divided into three performance periods (until the end of the first, second and third financial year following the relevant financial year). The amount of LTI remuneration is dependent on the achievement of certain performance targets. The performance targets in question are total shareholder return and the development of LEG's share price compared to the relevant EPRA Germany Index.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. On the basis of an assessment of the Management Board on the attainment of performance hurdles, staff costs of EUR 3.4 million (previous year: EUR 1.7 million) were recognised as at 31 December 2019. The provision for long-term incentive plans amounted to EUR 0.1 million as at 31 December 2019 (previous year: EUR 2.6 million).

A target level of 55.7 % was achieved for LTI 2020 and of 63 % for LTI 2019. 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 2,862 thousand as at 31 December 2019 (previous year: EUR 1,095 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 Immo. The Management Board of LEG Immo and the Management Team at LEG 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.

Transactions with related persons and companies are concluded under normal market conditions.

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:

T131

Receivables from and liabilities to related companies

€ million	31.12.2019	31.12.2018
Statement of financial positions		
Liabilities to shareholders	0.6	0.6

T132

Income from and expenses for related companies

€ million	2019	2018
Statement of comprehensive income		
Income from associates	0.2	0.2
Income from equity investments	3.1	2.6

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:

T133

Compensation package of the Management Board

€ thousand	2019	2018
Fixed remuneration	2,010	1,521
Ancillary benefits	105	87
Total fixed benefits	**2,115**	**1,608**
Short-Term-Incentive-programme (STI)	969	954
Long-Term-Incentive-Programme (LTI)	620	486
Total variable benefits	**1,589**	**1,440**
Total	**3,704**	**3,048**

The basis for calculating the STI is the achievement of the respective consolidated IFRS business plan. The STI consists of an annual payment measured on the basis of the following four targets: net cold rent, net rental and lease income, adjusted EBITDA and funds from operations I per share. The first three targets each account for 20 % and the final target for 40 % of the STI.

No loans or advances were granted or extended to the members of the Management Board in the 2019 financial year.

For previous members of the Management Board there were pension provisions of EUR 0.3 million as at 31 December 2019.

Total remuneration of members of the Supervisory Board of LEG Immo amounted to EUR 0.8 million in 2019 (previous year: EUR 0.7 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2019 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:

T134

Benefits to the Management and Supervisory Board

€ thousand	2019	2018
Current payable benefits	3,979	3,395
Benefits after termination of the employment	7	28
Benefits in cause of the termination of employment	3,107	736
Share-based payment	122	750
Total	**7,215**	**4,909**

Further information can be found in the remuneration report, which forms part of the management report.

Termination benefits

Thomas Hegel's mandate as the CEO of LEG Immo was ended by mutual arrangement as at 29 May 2019. On the basis of the employment agreement which was due to run until the end of January 2021, Thomas Hegel received a severance payment of EUR 1.0 million in lieu of the fixed remuneration. Claims to additional benefits were settled at EUR 69 thousand. Target achievement for the STI for the period from 30 May 2019 to December 2019 as well as the STI for 2020 and STI 2021 has been set at an amount of EUR 0.6 million for 100 % achievement. In the context of the severance agreement, the LTI claims of EUR 1.5 million were vested early and remain classified under IFRS 2.

Eckhard Schultz's mandate as member of LEG Immo Management Board was ended by mutual arrangement as at 31 August 2019. On the basis of the employment agreement which was due to run until the end of January 2021, Eckhard Schultz received a severance payment of EUR 0.8 million in lieu of the fixed remuneration. Claims to additional benefits were settled at EUR 32 thousand. LEG will pay his company pension until 31 January 2021. The pension cost amounts to EUR 22 thousand. Target achievement for the STI for the period from September 2019 to December 2019 as well as the STI for 2020 and STI 2021 has been set at an amount of EUR 0.5 million for 100 % achievement. In the context of the severance agreement, the LTI claims of EUR 1.3 million were vested early and remain classified under IFRS 2.

8 | Guarantees and contingent liabilities

The LEG Group has the following contingent liabilities:

T135

Contingent liabilities

€ million	31.12.2019	31.12.2018
Land charges	2,940.0	3,256.0
Letters of comfort	1.1	1.5
Warranty agreements	461.9	462.0

The major part of the warranty agreements relate to guarantees to various banks of LEG Immobilien AG amounting to EUR 185 million, resulting from working capital facilities granted to a subsidiary (LEG NRW GmbH). Three letters of comfort from LEG NRW GmbH of approximately EUR 275.3 million areprovided as security for liabilities of the subsidiary to a financing bank. On the reporting date, there is joint liability of EUR 1.6 million covered by LEG Immobilien AG with receivables of gas suppliers.

For all the stated contingent liabilities the risk of utilisation is assessed as unlikely.

9 | Other financial commitments

The Group's other financial commitments are composed as follows:

T136

Other financial commitments

€ million	31.12.2019	31.12.2018
Commitments from service contracts	0.3	0.5
Factory management obligations	–	2.8
Purchase of energy	32.3	25.0
Purchase obligations	62.6	57.9

Future payment obligations from service contracts break down as follows:

T137

Payment obligations from service contracts

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2019	**0.3**	**–**	**–**	**0.3**
31.12.2018	0.5	–	–	0.5

T138

Factory management obligations

	Remaining term			Total
€ million	< 1 year	> 1 and 5 years	> 5 years	
31.12.2019	**–**	**–**	**–**	**–**
31.12.2018	0.7	2.1	–	2.8

10 | The Management Board

LEG Immobilien AG is represented by the Management Board, which consists of the following members:

LARS VON LACKUM,
CEO of LEG Immobilien AG,
Cologne
from 1 June 2019;
until 31 May 2019 CDO
of LEG Immobilien AG

DR VOLKER WIEGEL,
COO of LEG Immobilien AG,
Dusseldorf
from 1 June 2019

THOMAS HEGEL,
CEO of LEG Immobilien AG,
Erftstadt
until 29 May 2019

ECKHARD SCHULTZ,
CFO of LEG Immobilien AG,
Neuss
until 31 August 2019

Registered office of the company:
Hans-Böckler-Strasse 38
40476 Dusseldorf
Germany
Commercial Register: HRB 69386
Dusseldorf

11 | Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members.

The following members were elected by the shareholders' meeting:

MICHAEL ZIMMER,
– Chairman –; independent investor and consultant, Pulheim

STEFAN JÜTTE,
Deputy Chairman, business graduate, Bonn

NATALIE C. HAYDAY,
Managing Director 7Square GmbH, Frankfurt

DR JOHANNES LUDEWIG,
Business consultant, Berlin

DR CLAUS NOLTING,
Lawyer and consultant, Frankfurt

DR JOCHEN SCHARPE,
Managing Partner, AMCI GmbH,
Munich

12 | Supplementary Report

The acquisition of a property portfolio of around 2,010 residential and commercial units was notarised on 27 September 2019. The portfolio generates annual net cold rent of around EUR 7.1 million. The average in-place rent is around EUR 4.97 per square metre and the initial vacancy rate is around 4.5 %. The transaction was closed on 1 January 2020. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

The acquisition of a property portfolio of 1,406 residential and commercial units was notarised on 30 January 2020. The portfolio generates annual net cold rent of around EUR 6.0 million. The average inplace rent is around EUR 5.71 per square metre and the initial vacancy rate is around 4.4 %. It is expected the transaction will be closed on 1 April 2020. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Effective 1 July 2020, Susanne Schröter-Crossan will be CFO of LEG Immobilien AG. Since September 2019, Lars von Lackum, CEO of LEG Immobilien AG has also managed the Finance division on a provisional basis.

On 27 December 2019, LEG NRW GmbH acquired the F 99 and F 101 projects (land plus defined construction project specifications) from F 101 Projekt GmbH & Co. KG (notary document number 2377/2019). The provisional purchase price for F 99 is EUR 72.3 million and for F 101 EUR 47.5 million. The purchase prices are due to the acceptance of the completed buildings (F99 anticipated for 1 March 2022/F 101 1 September 2022).

On 17 February 2020, money market units of EUR 84.0 million were sold.

There were no other material events with particular importance for the Group after the end of the financial year.

Declaration of Compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board comply with the recommendations of the German Corporate Governance Code as presented in the management report. The declaration of compliance has been made permanently available to shareholders on the company's website at **www.leg-wohnen.de/fileadmin/user_upload/Assets/PDFs/Unternehmen/Investor_Relations/Corporate_Governance/Compliance_Statement_161AktG-Nov2019.pdf.**

Dusseldorf, 4 March 2020
LEG Immobilien AG

The Management Board
LARS VON LACKUM **DR VOLKER WIEGEL**

List of shareholdings

The following table shows an overview of the basis of consolidation of the LEG Group:

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Consolidated companies		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Immobilien AG, Dusseldorf		Parent company		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	109,441	– 11
LEG Holding GmbH, Dusseldorf	1)	100.00	880,763	29
LEG NRW GmbH, Dusseldorf	2)	99.98	1,287,018	64,753
LEG Wohnen GmbH, Dusseldorf	2)	100.00	559,031	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0[3]
Solis GmbH, Dusseldorf	1)	94.90	99,333	0
Rheinweg Grundstucksgesellschaft mbH, Dusseldorf	2)	100.00	86,392	0
Luna Immobilienbeteiligungs GmbH, Dusseldorf	1)	94.90	10,196	0
Rheinweg Zweite Grundstucksgesellschaft mbH, Dusseldorf	2)	100.00	78,525	0
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0[3]
Noah Asset 4 GmbH, Dusseldorf	2)	94.90	2,616	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	1)	100.00	302	0
GWN Gemeinnutzige Wohnungsgesellschaft Nordwestdeutschland GmbH, Münster	2)	94.86	74,582	0
GeWo Gesellschaft fur Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0
GeWo Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Münster	2)	100.00	63	– 8
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
Baum Erste WI Bremen GmbH, Hanover	2)	94.90	– 672	– 3,557
Baum Zweite WI Bremen GmbH, Hanover	2)	94.90	4,218	274
Baum WI Oldenburg GmbH, Hanover	2)	94.90	4,268	– 136
LEG Grundstucksverwaltung GmbH, Dusseldorf	2)	100.00	25,863	0
Dusseldorfer Ton- und Ziegelwerke GmbH, Dusseldorf	2)	100.00	10,455	0
Germany Property Dusseldorf GmbH, Dusseldorf	2)	94.90	4,881	0
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0[3]
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	345	0[3]
LEG LWS GmbH, Dusseldorf	1)	100.00	25	0
LEG Solution GmbH, Dusseldorf	3)	100.00	66,718	0
LEG Wohnviertel Dyk GmbH, Dusseldorf	2)	100.00	335	168
LEG Standort- und Projektentwicklung Köln GmbH, Dusseldorf	2)	100.00	13,753	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Liebenscheid	5)	94.86	5,870	1,771
Grundstucksentwicklungsgesellschaft Ennigerloh Sud-Ost mbH i.L., Cologne	2)	94.90	– 7,743	– 118
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0[3]
Ravensberger Heimstätten Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Gemeinnutzige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Höxter	2)	100.00	11,909	0
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0[3]
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0
Wohnungsgesellschaft Münsterland mbH, Münster	2)	100.00	164,978	0[3]
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Münster	2)	100.00	114	0
LEG Erste Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Zweite Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Dritte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Vierte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Funfte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Sechste Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Siebte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]
LEG Achte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]

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Consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Neunte Grundstucksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
SW Westfalen Invest GmbH, Dusseldorf	2)	94.90	78,957	0[3]
LEG Recklinghausen 1 GmbH, Dusseldorf	2)	94.90	22,556	797
LEG Recklinghausen 2 GmbH, Dusseldorf	2)	94.90	10,926	351
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
EnergieServicePlus GmbH, Dusseldorf	4)	100.00	9,799	2,569[3]
TSP-TechnikServicePlus GmbH, Dusseldorf	4)	51.00	827	0[3]
Grundstucksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	3,058	0
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Dusseldorf	2)	94.90	33,744	2,648[2,3]
AWM Grundstucksgesellschaft 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
Gemeinnutzige Eisenbahn Wohnungsbaugesellschaft mbH, Dusseldorf	2)	94.90	6,496	0

[1] Unless indicated otherwise, these figures show the equity and result as taken from the, not yet adopted, separate HGB financial statements as at 31 December 2019. A zero result is shown in the event of there being a profit transfer agreement in place.
[2] Earnings before loss absorption and after profit transfer
[3] Exemption in accordance with section 264(3) HGB

Activities of subsidiaries:

1) Performance of services and management of equity investments within the LEG Group
2) Property management and location development
3) Performance of services for third parties
4) Performance of housing industry services
5) Electricity and heat generation

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Non-consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
Entwicklungsgesellschaft Rhein-Pfalz GmbH, Mainz	2)	100.00	25	0
Entwicklungsgesellschaft Rhein-Pfalz GmbH & Co. KG, Mainz	4)	100.00	1,241	– 54
Wohngelegenheit Nord GmbH, Dusseldorf	2)	100.00	25	0
Wohngelegenheit Mitte GmbH, Dusseldorf	2)	100.00	25	0
Wohngelegenheit Süd GmbH, Dusseldorf	2)	100.00	25	0
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Dusseldorf	2)	100.00	26	1
LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	3)	100.00	93	– 6

[1] These figures are the separate HGB equity and results as at 31 December 2019 with the exception of the Wohngelegenheit companies founded in 2019.

Activities of non-consolidated companies:

1) Property management
2) Shell company
3) Performance of services for third parties

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Associates accounted for using the equity method

	Share of capital %	Equity[1] € thousand	Result[1] € thousand
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	21,441	561
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3,628	11

Consolidated statement of changes in assets/annex I

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Consolidated statement of changes in assets 2019

	Costs									Cumulative depreciation, amortisation and write-downs/ fair values				Carrying amounts	
€ million	As of 01.01.2019	First time application IFRS 16	As of 01.01.2019	Additions from consolidated companies	Additions	Disposals	Additions from investment properties	Disposal to investment properties	**As of 31.12.2019**	As of 01.01.2019	Additions	Disposals	**As of 31.12.2019**	**As of 31.12.2019**	As of 31.12.2018
Property, plant and equipment	**132.7**	**16.0**	**148.7**	**0.1**	**19.9**	**– 26.5**	**2.8**	**– 1.7**	**143.3**	**– 70.2**	**– 15.9**	**26.4**	**– 59.7**	**83.6**	**62.5**
Land, land rights and buildings	28.3	8.0	36.3	–	1.5	–	2.2	– 1.7	38.3	– 5.7	– 2.8	–	– 8.5	29.8	22.6
Technical equipment and machinery	53.1	20.3	73.4	0.1	13.7	– 0.3	0.6	–	87.5	– 31.0	– 9.5	0.2	– 40.3	47.2	22.1
Other equipment, operating and office equipment	9.4	4.0	13.4	–	4.7	– 0.6	–	–	17.5	– 8.2	– 3.3	0.6	– 10.9	6.6	1.2
Finance leases	41.9	– 16.3	25.6	–	–	– 25.6	–	–	–	– 25.3	– 0.3	25.6	0.0	–	16.6
Intangible assets	**100.0**	**1.0**	**101.0**	**54.4**	**0.3**	**– 0.1**	**–**	**–**	**155.6**	**– 14.7**	**– 0.3**	**0.1**	**– 14.9**	**140.7**	**85.3**
Other intangible assets	15.1	1.0	16.1	–	0.3	– 0.1	–	–	16.3	– 14.7	– 0.3	0.1	– 14.9	1.4	0.4
Goodwill	84.9	–	84.9	54.4	–	–	–	–	139.3	–	–	–	–	139.3	84.9
Total	**232.7**	**17.0**	**249.7**	**54.5**	**20.2**	**– 26.6**	**2.8**	**– 1.7**	**298.9**	**– 84.9**	**– 16.2**	**26.5**	**– 74.6**	**224.3**	**147.8**

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Consolidated statement of changes in assets 2018

	Costs									Cumulative depreciation, amortisation and write-downs/fair values				Carrying amounts	
€ million	As of 01.01.2018	First time application IFRS 16	As of 01.01.2018	Additions from consolidated companies	Additions	Disposals	Additions from investment properties	Disposal to investment properties	As of 31.12.2018	As of 01.01.2018	Additions	Disposals	As of 31.12.2018	As of 31.12.2018	As of 31.12.2017
Property, plant and equipment	**125.9**	**–**	**125.9**	**–**	**8.4**	**– 1.4**	**1.5**	**– 1.7**	**132.7**	**– 62.4**	**– 9.1**	**1.3**	**– 70.2**	**62.5**	**63.5**
Land, land rights and buildings	27.7	–	27.7	–	0.8	–	1.5	– 1.7	28.3	– 5.1	– 0.6	–	– 5.7	22.6	22.6
Technical equipment and machinery	47.8	–	47.8	–	5.4	– 0.1	–	–	53.1	– 27.3	– 3.8	0.1	– 31.0	22.1	20.5
Other equipment, operating and office equipment	9.2	–	9.2	–	0.2	–	–	–	9.4	– 7.8	– 0.4	–	– 8.2	1.2	1.4
Finance leases	41.2	–	41.2	–	2.0	– 1.3	–	–	41.9	– 22.2	– 4.3	1.2	– 25.3	16.6	19.0
Intangible assets	**99.5**	**–**	**99.5**	**–**	**0.5**	**–**	**–**	**–**	**100.0**	**– 14.1**	**– 0.6**	**–**	**– 14.7**	**85.3**	**85.4**
Other intangible assets	14.6	–	14.6	–	0.5	–	–	–	15.1	– 14.1	– 0.6	–	– 14.7	0.4	0.5
Goodwill	84.9	–	84.9	–	–	–	–	–	84.9	–	–	–	–	84.9	84.9
Total	**225.4**	**–**	**225.4**	**–**	**8.9**	**– 1.4**	**1.5**	**– 1.7**	**232.7**	**– 76.5**	**– 9.7**	**1.3**	**– 84.9**	**147.8**	**148.9**

Consolidated statement of changes in provisions/annex II

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Consolidated statement of changes in provisions 2019

€ million	As of 01.01.2019	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	**As of 31.12.2019**	thereof Non-current	thereof Current
Staff provisions										
Staff provisions	1.3	–	– 0.5	–	–	1.1	–	1.9	1.1	0.8
Other provisions	**21.0**	**0.1**	**– 9.9**	**– 0.8**	**–**	**13.0**	**0.1**	**23.5**	**4.0**	**19.4**
Provisions of lease properties	0.4	–	–	– 0.2	–	–	–	0.2	0.1	0.1
Construction book provisions	3.1	–	– 0.2	– 0.3	–	0.1	–	2.7	0.4	2.3
Litigations risks	1.1	–	– 0.4	– 0.1	– 0.1	0.2	–	0.7	0.0	0.7
Other provisions	16.4	0.1	– 9.3	– 0.2	0.1	12.7	0.1	19.9	3.6	16.3
Total	**22.3**	**0.1**	**– 10.4**	**– 0.8**	**–**	**14.1**	**0.1**	**25.4**	**5.2**	**20.2**

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Consolidated statement of changes in provisions 2018

€ million	As of 01.01.2018	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	As of 31.12.2018	thereof Non-current	thereof Current
Staff provisions										
Staff provisions	1.0	–	– 0.6	–	–	0.9	–	1.3	0.8	0.5
Other provisions	**21.3**	**–**	**– 7.1**	**– 1.3**	**–**	**8.0**	**0.1**	**21.0**	**3.7**	**17.3**
Provisions of lease properties	0.6	–	–	– 0.2	–	–	–	0.4	0.3	0.1
Construction book provisions	2.8	–	– 0.1	– 0.1	–	0.5	–	3.1	0.4	2.7
Litigations risks	1.8	–	– 0.5	– 0.7	0.3	0.2	–	1.1	–	1.1
Other provisions	16.1	–	– 6.5	– 0.3	– 0.3	7.3	0.1	16.4	3.0	13.4
Total	**22.3**	**–**	**– 7.7**	**– 1.3**	**–**	**8.9**	**0.1**	**22.3**	**4.5**	**17.8**

Independent auditor's report

To LEG Immobilien AG, Düsseldorf

Report on the Audit of the consolidated financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of LEG Immobilien AG, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LEG Immobilien AG for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of investment properties
2. Presentation and measurement of primary and derivative financial instruments

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of investment properties

1.
In the consolidated financial statements of LEG Immobilien AG as of 31 December 2019 investment properties in the amount of € 12,031.1 million (prior year € 10,709.0 million) are reported. LEG exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realized when properties are sold, as well as unrealized changes in market value, are recognized at fair value through profit or loss. In the past financial year, € 923.4 million (prior year € 800.9 million) in unrealized changes in market value were recognized through profit or loss in the consolidated statement of comprehensive income.

When determining the fair value, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined using a company-internal measurement model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using the net asset value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values.

To the extent possible, LEG uses data directly observable on the market to determine fair value (sources include property market reports prepared by expert committees and public and subscriptions-based market databases). In addition, a valuation report is prepared by an independent appraiser and is used to verify the plausibility of internal calculations.

The measurement of investment properties is based on a large number of relevant parameters which are in general subject in some respects to uncertainties with regard to estimates and judgments. Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalization rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit because the measurement of investment properties is in general subject to substantial judgment and estimation uncertainties and there is the risk that the changes in fair value which are recognized through profit or loss do not fall within an appropriate range.

2.
As part of our audit, in collaboration with our specialists from our Valuation & Strategy department, we recorded the internal controls in place and assessed whether they were appropriate and effective, among other things. In addition, we assessed the measurement models used by LEG with respect to their compliance with IAS 40 in conjunction with IFRS 13, the homogeneity of the properties being valued, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m², planned maintenance per m²), the assumed vacancy rate and the discount and capitalization rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations.

As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the DCF method or on the basis of the standardized German income approach [Ertragswertverfahren] pursuant to the German Property Valuation Regulation [Immobilienwertermittlungsverordnung; ImmoWertV)].

The valuation technique applied by the executive directors of LEG is appropriately designed and suitable for calculating fair values in accordance with IFRSs. The underlying assumptions reflect the current market parameters.

3.
Please refer to sections D.1, D.18, D.22, D.23, E.1, F.3 and F.4 of the notes for information on investment properties.

2. Presentation and measurement of primary and derivative financial instruments

1.
In the consolidated financial statements of LEG Immobilien AG as of 31 December 2019 financial liabilities in the amount of € 5,053.9 million (prior year € 4,598.1 million) are reported. The increase in the financial liabilities was primarily due to the issue of new bonds with an amount of € 800.0 million, the issue of registered bonds and the raising of further financing with an IFRS book value of € 313.1 million as of the balance sheet date as well as the recognition of financial liabilities of € 55.6 million in conjunction with the first-time adoption of IFRS 16 and amortisation effects from the adoption of the effective interest method of € 34.9 million. This was offset by scheduled and unscheduled redemptions amounting to € 441.8 million and the conversion of a convertible bond in the amount of € 300.0 million.

The carrying amounts of the outstanding convertible bonds (basic debt component) amounted to € 387.3 million (prior year € 667.2 million) and the carrying amounts of the embedded derivatives were € 60.3 million (prior year € 262.2 million). The prior-year amounts include the convertible bond converted in the reporting year and the associated embedded conversion right. The change compared to the previous year therefore results mainly from the conversion of the € 300.0 million convertible bond. In this context, the underlying debt component was compounded to the nominal value of the bond in the amount of € 300.0 million and the embedded derivative was finally evaluated. Both components were subsequently reclassified to equity, which reduced the level of financial liabilities and the amount of embedded derivatives accordingly. The change in embedded derivatives (embedded conversion rights) compared to the previous year also results from valuation effects of € – 94.8 million, which are reported in the result from the valuation of derivatives.

An interest rate swap with a total volume of € 35.0 million was concluded during the financial year to hedge interest rate volatility arising from floating-rate loans.

Financial liabilities are initially recognized at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. Subsequent measurement takes place at amortized cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are created.

The LEG Group uses derivative financial instruments to hedge interest rate risks incurred in financing its properties. Derivative financial instruments are measured at fair value. Changes in the fair value of derivatives are recognized through profit or loss if no hedging relationship in accordance with IFRS 9 exists. Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities.

The input parameters for valuation models used to determine the fair value of derivative financial instruments are the relevant market prices and interest rates observed on the balance sheet date and taken from recognized external sources.

The matters presented above were of particular significance for our audit due to the judgments involved in measuring and appropriately presenting financial instruments, particularly with respect to hedge accounting.

2.
We involved experts from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities, including the effects of the derivative financial instruments on equity and profit or loss. With their assistance, among other things we assessed the established internal control system.

New contracts recognized as financial liabilities were selected according to specific risk-oriented criteria and evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortized costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities. The outstanding convertible bonds were assessed in full with respect to recognition, measurement and presentation.

As part of our audit of the fair value of primary financial instruments, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis. We also took into account fair value measurement when determining the effectiveness of derivatives in hedge accounting. We assessed whether the documentation of hedge accounting complied with the requirements of IFRS 9.

We obtained bank confirmations to assess whether all financial liabilities and financial instruments were recognized in full.

The presentation of financial liabilities and derivative financial instruments by the executive directors of LEG is appropriate. In our view, the measurement method used and the underlying assumptions and valuation parameters are appropriate overall.

3.
Please refer to sections D.14, D.15, D.16, D.22, D.23, E.11, F.7, F.8 and I.3 of the notes for information on primary and derivative financial instruments.

Other Information

Other Information
The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in a separate section of the group management report
- the separate non-financial group report pursuant to § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information –, with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 May 2019. We were engaged by the supervisory board on 27 August 2019. We have been the group auditor of the LEG Immobilien AG, Düsseldorf, without interruption since the financial year 2008.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public Auditor responsible for the Engagement

The German Public Auditor responsible for the engagement is Thomas Kieper.

Dusseldorf, 4 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

THOMAS KIEPER
(German Public Auditor)

PPA. MARTIN FLÜR
(German Public Auditor)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the LEG Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the LEG Group, together with a description of the principal opportunities and risks associated with the expected development of the LEG Group."

Dusseldorf, 4 March 2020

LEG Immobilien AG, Dusseldorf
The Management Board

LARS VON LACKUM **DR VOLKER WIEGEL**

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FURTHER INFORMATION

The Management Board

The members of the Management Board are as follows

LARS VON LACKUM
Chief Executive Officer (CEO)

Strategy, M&A, Organisation and Digitisation
Legal and Human Resources
  Management and Supervisory Board Office
  Legal, Compliance and Internal Audit
  Human Resources
Corporate Communications
Acquisition
New construction
IT

LARS VON LACKUM
Chief Financial Officer

Controlling & IR
  Controlling
  Investor Relations
Corporate Finance & Treasury
Portfolio Management
Accounting and Tax
  Accounting
  Tax

DR VOLKER WIEGEL
Chief Operating Officer

Asset and Property-Management; incl.
  Commercial Management
  Neighbourhood Management
  Property Management
  Modernisation
  Central Procurement
  Receivables Management
  Rent Management
  Operating Expenses Management
TechnikServicePlus GmbH
EnergieServicePlus GmbH
Risk Management

Separate financial statements of LEG Immobilien AG

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

As at the balance sheet date of 31 December 2019, the separate entity company is a large corporation within the meaning of section 267(3) sentence 2 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.

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

LEG Immobilien AG and its direct and indirect subsidiaries are among the largest residential companies in North Rhine-Westphalia. The LEG Group held a portfolio of 135,303 units (residential and commercial) on 31 December 2019.

HGB annual financial statements for 2019

Net income/income statement

The net loss for the 2019 financial year amounts to EUR 16.9 million (previous year: net loss of EUR 13.1 million).

The higher net loss for the year compared to the previous year is essentially as a result of non-recurring costs in connection with a reorganisation of capital market financing and extraordinary effects in personnel expenses in connection with the departure of Mr Hegel and Mr Schultz from the Management Board of LEG Immobilien AG. These expenses have mostly been compensated by income from the joint venture cancellation agreement, the repurchase of shares in EnergieServicePlus GmbH and higher income from the reallocation of costs for intragroup services.

Based on the approved business planning, a net loss in the low eight-figure range was already anticipated for 2019.

Balance sheet

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Balance sheet separate financial statements

€ million	31.12.2019	31.12.2018	Change
Financial assets	5,417.6	4,748.6	669.0
Receivables	23.2	22.4	0.8
Cash and cash equivalents	4.2	0.2	4.0
Prepaid expenses	12.9	30.9	– 18.0
Total Assets	**5,457.9**	**4,802.1**	**655.8**
Equity	3,359.0	3,264.1	94.9
Provisions	18.9	66.9	– 48.0
Liabilities	2,073.8	1,464.9	608.9
Deferred tax liabilities	6.2	6.2	0.0
Total equity and liabilities	**5,457.9**	**4,802.1**	**655.8**

Financial assets increased by EUR 669.0 million to EUR 5,417.6 million (previous year: EUR 4,748.6 million). EUR 639.0 million of the change in financial assets relates to a further loan to an affiliated company of the LEG Group, and EUR 30.0 million to the buyback of the 49 % of shares in EnergieServicePlus GmbH sold in 2015.

Prepaid expenses of EUR 12.9 million (previous year: EUR 30.9 million) essentially include discounts resulting from differences between fair value on issue and liabilities recognised at settlement amount.

The equity and liabilities side of the balance sheet comprises equity of EUR 3,359.0 million, liabilities of EUR 2,073.8 million, deferred tax liabilities of EUR 6.2 million and provisions of EUR 18.9 million.

As at 31 December 2019 the equity of LEG Immobilien AG consists of the subscribed capital of EUR 69.0 million, capital reserves of EUR 943.7 million, revenue reserves of EUR 2,089.4 million and net retained profits of EUR 256.9 million. In accordance with the Management Board's resolution, EUR 270.0 million was withdrawn from revenue reserves and appropriated to net retained profits in accordance with section 272(3) HGB.

The change in equity compared to the previous year results from the dividend paid of EUR 223.1 million, the conversion of the convertible bond issued in 2014 (EUR 335.0 million) and the net loss of EUR 16.9 million.

Two corporate bonds with a total volume of EUR 800 million were issued in November 2019 in connection with the reorganisation of capital market financing. As at 31 December 2019, liabilities of EUR 2,073.8 million comprised a convertible bond of EUR 400.0 million, a corporate bond of EUR 500.0 million, additional financing of EUR 1,030.0 million, commercial paper financing (EUR 100.0 million), other liabilities (EUR 17.6 million), liabilities to affiliated companies (EUR 25.4 million) and trade payables (EUR 0.8 million).

Provisions essentially consist of a provision for conversion rights in the amount of EUR 15.2 million.

Financial statements

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

Glossary

EBIT
Earnings **b**efore **I**nterest and **T**ax
Operating earnings
Consolidated net income before net finance costs and taxes.

EBITDA
Earnings **b**efore **I**nterest, **T**ax, **D**epreciation and **A**mortisation
Consolidated net income before net finance costs and taxes, depreciation on property, plant and equipment and amortisation of intangible assets; depreciation and amortisation also include impairment losses and reversals thereof.

adj. EBITDA
adjusted EBITDA
EBITDA adjusted for net income on the remeasurement of investment of investment properties, net income from the disposal of real estate inventory, net income from the disposal of investment properties, non-recurring project costs and other extraordinary and prior-period expenses and income.

FFO I
Funds **f**rom **O**perations **I**
Funds generated from operating activities LEG calculation: adj. EBITDA adjusted for cash interest expenses and income and cash taxes.

FFO II
Funds **f**rom **O**perations **II**
FFO I plus net income from the disposal of investment properties.

AFFO
Adjusted **FFO I**
FFO I adjusted for investments for capitalized expenditure measures.

EPRA
European **P**ublic **R**eal Estate **A**ssociation

EPRA capex
The EPRA capex splits the **capitalised expenditure** of the reporting period in comparison to the comparative period in several components.

EPRA vacancy rate
Vacancy rate as defined by **EPRA**
Expressed as a percentage being the estimated market rental value of vacant space divided by the estimated market rental value of the whole portfolio.

EPRA Earnings per Share
Net profit or loss for the period attributable to parent shareholders, adjusted for non-cash remeasurement effects of investment properties and derivatives, acquisition costs and aperiodic financing costs and income taxes, that are not classified as current income taxes.

EPRA-NAV
Net **A**sset **V**alue as defined by **EPRA**
Net asset value from a shareholder perspective assuming the long-term continuation of the company as a going concern. This value is calculated on the basis of equity which is controlled by the shareholders and eliminates the effects of the market measurement of derivative financial instruments and deferred taxes which correspond to investment properties, derivatives or subsidised loans.

Pro forma NAV
EPRA-NAV as described above adjusted for the effects of a simulated executed conversion of the 2014/2021 convertible.

EPRA-NNNAV
Triple Net **A**sset **V**alue as defined by **EPRA**
EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.

EPRA-Net Initial Yield
Net initial yield as defined by **EPRA**
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

EPRA cost ratio
The **cost ratio** is an indicator of the company's operating performance. Administrative and operating expenses are divided by gross rental income, adjusted for leasehold land interests and – unless marked otherwise – directly attributable vacancy costs.

LTV
Loan **t**o **V**alue
The ratio of net financial liabilities (not including EK 02 tax liabilities), less cash and cash equivalents to the sum of investment properties, assets held for sale and prepayments for investment properties.

CAPEX
Capital **Ex**penditure
Capitalised cost of modernisation and maintenance work.

Project costs
Project costs include expenses for projects that are largely non-recurring with a complex structure whose goals are to be met within the budget and time provided.

Tables and Figures

Table overview

Further Information

Figure overview

To the Shareholders

Group Management Report

Financial calendar

LEG Financial Calendar 2020

Release of Annual Report 2019	**9 March**
Release of Quarterly Statement Q1 as of 31 March 2020	**11 May**
Annual General Meeting, Dusseldorf	**20 May**
Release of Quarterly Report Q2 as of 30 June 2020	**7 August**
Release of Quarterly Statement Q3 as of 30 September 2020	**12 November**

For additional dates see our **> website.**

Contact Details and Imprint

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The annual report is also available in German.
In case of doubt, the German version takes precedence.

gewohnt gut.

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