TLG IMMOBILIEN AG

FINANCIAL REPORT 2016

Annual Financial Statements (HGB) and Management Report

INDIVIDUAL FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS
for 2016

	2016 EUR	2016 EUR	2015 EUR k
1. Revenue		186,239,266.61	179,983
2. Increase/decrease in work in progress		2,261,281.29	966
3. Other operating income		16,955,429.03	46,390
		205,455,976.93	227,339
4. Cost of materials			
a) Cost of disposals from the portfolio	21,707,336.69		13,885
b) Cost of purchased services	51,403,909.45		38,280
		73,111,246.14	52,165
5. Personnel expenses			
a) Salaries	9,955,386.45		10,032
b) Social security contributions and expenses for pensions and other employee benefits	1,051,428.31		1,473
of which for pensions EUR 115,163.73 (previous year EUR k 255)			
		11,006,814.76	11,505
6. Depreciation, amortization and write-downs			
a) On fixed intangible assets and property, plant and equipment	52,778,167.60		56,351
b) Of current assets, if these exceed the depreciation usual for the corporation	0.00		8
		52,778,167.60	56,359
7. Other operating expenses		10,124,417.41	9,998
		58,435,331.02	97,312
8. Income from investments	3,301,467.02		4,700
Of which from affiliated companies EUR 3,301,467.02 (previous year EUR k 4,700)			
9. Other interest and similar income	307,983.57		435
10. Interest and similar expenses	27,145,217.06		24,099
Of which from affiliated companies			
		-23,535,766.47	-18,964
11. Income taxes		4,934,755.32	10,124
of which expenses relating to the changes in recognized deferred income taxes EUR 1,090,004.81 (previous year EUR k 7,245)			
12. Earnings after taxes		29,964,809.23	68,224
13. Other taxes		2,219.53	6
14. Net income for the year		29,962,589.70	68,218
15. Retained profits brought forward		2,022,969.78	0
16. Withdrawal from other revenue reserves		28,838,398.08	0
17. Appropriation to other revenue reserves		0.00	17,644
18. Net profit		60,823,957.56	50,574

STATEMENT OF FINANCIAL POSITION

as at 31/12/2016

ASSETS	EUR	31/12/2016 EUR	31/12/2015 EUR k
A. ASSETS			
I. Intangible assets			
Purchased software		248,887.35	402
II. Property, plant and equipment			
1. Land, landrights and buildings including buildings on third-party land	1,449,333,268.50		1,255,381
2. Technical equipment	139,521.00		276
3. Other equipment, operating and office equipment	228,921.00		207
4. Prepayments made and assets under construction	4,436,019.75		17,136
		1,454,137,730.25	1,273,000
III. Financial assets			
1. Shares in affiliated companies	264,731,978.12		80,653
2. Other loans	2,519,123.60		2,535
		267,251,101.72	83,188
B. CURRENT ASSETS			
I. Inventories			
1. Real estate	712,204.02		1,289
2. Work in progress	19,660,848.91		17,399
		20,373,052.93	18,688
II. Financial assets			
1. Trade receivables	4,956,005.23		10,759
2. Receivables from affiliated companies	4,296.02		0
3. Other receivables and assets	1,865,963.62		5,028
		6,826,264.87	15,787
III. Cash in hand and bank balances		63,755,845.59	180,366
C. PREPAID EXPENSES		6,523,215.41	7,066
		1,819,116,098.12	1,578,497

LIABILITIES		EUR	31/12/2016 EUR	31/12/2015 EUR k
A.	**EQUITY**			
I.	**Subscribed capital**		67,432,326.00	67,432
	Of which conditional capital of EUR 33,716,163.00 (previous year EUR k 26,000)			
II.	**Capital reserves**		486,342,615.49	486,343
III.	**Retained earnings**			
	Other retained earnings		24,342,956.83	53,181
IV.	**Net profit**		60,823,957.56	50,574
			638,941,855.88	657,530
B.	**SPECIAL ITEM FOR INVESTMENT SUBSIDIES AND GRANTS**		11,612,652.12	12,705
C.	**Provisions**			
1.	Provision for pensions and similar obligations	5,918,584.00		6,301
2.	Tax provisions	3,971,930.54		6,540
3.	Other provisions	15,406,221.35		11,615
			25,296,735.89	24,456
D.	**LIABILITIES**			
1.	Liabilities due to financial institutions	1,044,362,485.76		786,067
2.	Prepayments received	23,542,014.94		25,352
3.	Trade payables	6,248,342.12		7,031
4.	Liabilities to affiliated companies	9,257,530.61		6,394
5.	Other liabilities	4,927,656.70		4,895
	Of which from taxes EUR 1,728,135.96 (previous year EUR k 1,346)			
	Of which social security EUR 425.00 (previous year EUR k 1)			
			1,088,338,030.13	829,739
E.	**DEFERRED INCOME**		693,397.62	924
F.	**DEFERRED TAX LIABILITIES**		54,233,426.48	53,143
			1,819,116,098.12	1,578,497

NOTES OF TLG IMMOBILIEN AG BERLIN

1. GENERAL

The financial statements for the 2016 financial year were prepared in accordance with the provisions of the German Commercial Code (HGB) for large companies as well as the German Stock Corporation Act (AktG). The total cost method was used to present the statement of profit or loss.

The company is registered in the commercial register of the local court of Berlin Charlottenburg under the name TLG IMMOBILIEN AG with headquarters in Berlin and the number HRB 161314 B.

The report on the position of TLG IMMOBILIEN AG (TLG IMMOBILIEN) and of the Group was compiled according to § 315 (3) HGB.

The annual financial statements and the report on the position of the company and of the Group of TLG IMMOBILIEN for the 2016 financial year will be submitted to the operator of the Federal Gazette and published therein.

The annual financial statements of TLG IMMOBILIEN as well as the annual report for the 2016 financial year are also available online at *www.tlg.eu*.

The shares of TLG IMMOBILIEN are listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

As at 31 December 2016 TLG IMMOBILIEN AG held direct and indirect interests in the following companies. Unless indicated otherwise, the figures were valid as at 31 December 2016.

Name and registered offices of the company	Interest %	Equity on the reporting date EUR k	Income in the financial year EUR k
TLG CCF GmbH, Berlin [1]	100.000		
TLG MVF GmbH, Berlin [1]	100.000		
TLG Sachsen Forum GmbH, Berlin	100.000	24,104	79
Hotel de Saxe an der Frauenkirche GmbH, Dresden	100.000	22,200	1,175
TLG Fixtures GmbH, Berlin	100.000	359	−1
TLG Vermögensverwaltungs GmbH, Berlin i. L.	100.000	75	−1
TLG CCF S.C.S., Luxembourg [2]	100.000	26,647	164
TLG MVF S.C.S., Luxembourg [2]	100.000	5,895	255
TLG FAB S.à r.l., Luxembourg	94.896	33,665	1,986

[1] *Different financial year (30/06). As it was established in the 2016 financial year, it has not yet been necessary to prepare annual financial statements.*
[2] *Financial statements for the 2014 financial year.*

As a rule, the financial statements have not yet been ratified. Equity and net income are based on German GAAP or local GAAP of the country in which each company is based.

2. ACCOUNTING AND VALUATION METHODS

The annual financial statements have been prepared with consideration for the new regulations of the German Accounting Directive Implementation Act (BilRUG) for the first time. This has not resulted in any changes to the annual financial statements.

The following accounting and valuation methods were used in the preparation of the statement of financial position and the statement of profit or loss:

Intangible assets are recognised at their historical cost and, provided that they deteriorate, are amortised based on their useful lives (three or five years; linear method).

Property, plant and equipment is recognised at the lower of historical cost or fair value if its impairment is permanent and is depreciated using the linear method based on its conventional useful life. Borrowing costs are not capitalised.

Land, land rights and buildings used for long-term business operations are measured at the lower of historical cost or fair value and, provided that they deteriorate, are depreciated based on their conventional useful lives.

Write-downs and reversals of write-downs are carried out according to the statement on accounting 'Bewertung von Immobilien des Anlagevermögens in der Handelsbilanz' (IDW RS IFA 2) published by the German Institute of Auditors (IDW) on 27 April 2015. An asset is only presumed to be impaired temporarily if verifiable circumstances make it reasonable to expect that there will no longer be a reason to write it down in the medium term, i. e. within a period of normally three to five years. The write-down is reversed in the financial year in which there was previously a reason to write the asset down.

Low-value assets with a net individual value of up to EUR 150 have been depreciated or amortised in full or recognised as expenses in the year in which they were acquired; it is assumed that they are disposed of immediately. With regard to assets with a net individual value of between EUR 150 and EUR 1,000, for the sake of simplicity the collective tax item that has to be formed each year has been added to the statement of financial position and depreciated at a rate of 20 % p. a. in its year of addition and in the four following years.

Financial assets are recognised at the lower of historical cost or fair value and loans are always recognised at their nominal value.

Properties classed as inventories are recognised at the lower of historical cost or fair value.

The work in progress is primarily the result of the capitalisation of unpaid operating costs less reductions for vacancies and default risks.

Receivables and other assets have all been recognised at their nominal value. Identifiable risks were taken into consideration by means of individual allowances.

The reversal of the special item for investment subsidies and grants is based on the useful lives of the subsidised assets.

The provisions for persons and similar obligations are determined by means of the projected unit credit method in combination with the 2005G mortality tables published by Dr Klaus Heubeck. They were discounted using the average market interest rate based on an assumed remaining term of 15 years of 4.01 % (previous year 3.88 %). This is based on the interest rates published by the German Central Bank (Deutsche Bundesbank) according to § 253 (2) HGB and the method specified in the German Regulation on the Discounting of Provisions (RückAbzinsV). The discount rate is based on the average market interest rate for the past ten years. The recognition of the provisions based on the seven-year and ten-year average interest rates produces a difference of EUR 585,129 which is subject to distribution restrictions according to § 253 (6) HGB. As expected, salary increases and fluctuations were not taken into account. Expected pension increases were taken into account at a rate of 2 % (previous year 2 %) or, if committed to, at a rate of 1 % (previous year 1 %).

The tax provisions and other provisions take all unknown liabilities and threatening losses from pending transactions into account. They have been recognised at the settlement amount deemed necessary using equitable business judgement (i. e. including future increases in costs and prices). The provisions are therefore short-term and have not been discounted.

Liabilities were recognised at their settlement amounts.

In order to calculate deferred taxes due to temporary or semi-permanent differences between the measurement of assets, liabilities, deferrals and accruals under commercial law and their measurement for tax purposes, the amounts of the resulting tax burden and relief are measured using the individual tax rates of the company as at the settlement of the differences and are not discounted. Deferred tax assets and liabilities have been offset and produced a deferred tax liability.

The following accounting and valuation method was used wherever units of account were formed according to § 254 HGB:

Hedges have been formed in order to recognise economic hedging relationships in the statement of financial position. Therefore, positive and negative changes in value resulting from the hedged risk which balance one another out have been presented without affecting the statement of profit or loss (net hedge presentation method).

3. ASSETS

The statement of changes in fixed assets, which is a component of the notes, contains information on the changes in assets.

As in the previous year, the trade receivables and receivables from affiliated companies were due in less than one year.

Of the other assets, EUR 0.2 m is due in more than one year (previous year EUR 0.2 m due in more than one year).

4. EQUITY AND LIABILITIES

SHARE CAPITAL

TLG IMMOBILIEN has share capital of EUR 67.4 m. The share capital is divided into 67,432,326 no-par shares with a theoretical par value of EUR 1.00 per share.

AUTHORISED CAPITAL

The Management Board is authorised to increase the share capital of the company by up to EUR 24,521,163.00 (Authorised capital 2014/II) by issuing up to 24,521,163 new shares by 21 October 2019. The shareholders must always be granted subscription rights, although under certain circumstances the subscription rights of the shareholders can be excluded.

The Management Board is authorised to increase the share capital of the company by up to EUR 9,195,000.00 (Authorised capital 2016) by issuing up to 9,195,000 new shares by 30 May 2021. The shareholders must always be granted subscription rights, although under certain circumstances the subscription rights of the shareholders can be excluded.

CONTINGENT CAPITAL

By resolution of the general meeting on 31 May 2016, the share capital was increased by up to EUR 33,716,163 on a contingent basis (contingent capital 2016).

By resolution of the general meeting on 31 May 2016 and with the consent of the Supervisory Board, until 31 May 2021 the Management Board is authorised to issue the share capital of the company – once or multiple times – by means of options tied to debentures, warrant or convertible bonds, participation rights, participating bonds or mandatory convertible debentures up to the total nominal value of EUR 600,000,000 and to grant a proportional amount of the share capital totalling up to EUR 33,716,163 to the holders or creditors of the equally entitled partial debentures, options or conversion privileges for the shares of the company under the specific conditions of the debentures.

REVENUE RESERVES

While preparing the annual financial statements, the Management Board withdrew EUR 28.8 m from the other revenue reserves and transferred it to net profit.

ACCUMULATED PROFIT

By resolution of the general meeting on 31 May 2016, EUR 2.0 m was transferred from the net profit in 2015 to accumulated profit.

PROVISIONS

The other provisions totalling EUR 15.4 m mainly concern personnel expenses (EUR 2.3 m), long-term bonus schemes (EUR 1.8 m), expenses related to letting activities (EUR 3.4 m), outstanding invoices (EUR 1.8 m), litigation risks (EUR 0.2 m) and threatening losses for interest rate hedges (EUR 2.0 m).

LIABILITIES

The liabilities have the following terms:

	31/12/2016				31/12/2015	
Liabilities	**Total** EUR m	**Up to 1 year** EUR m	**1–5 years** EUR m	**More than 5 years** EUR m	**Total** EUR m	**Up to 1 year** EUR m
due to financial institutions	1,044.4	65.5	527.4	451.6	786.1	36.2
from prepayments received	23.5	23.5	0.0	0.0	25.4	25.4
from goods and services	6.2	6.2	0.0	0.0	7.0	6.4
to affiliated companies	9.3	9.3	0.0	0.0	6.4	6.4
other liabilities	4.9	4.0	0.5	0.5	4.9	3.7
Total	**1,088.3**	**108.4**	**527.8**	**452.0**	**829.8**	**78.1**

All liabilities to financial institutions are secured by land charges.

There is no collateral for liabilities beyond the liabilities to financial institutions.

The liabilities to affiliated companies (EUR 9.3 m) mainly consist of the claims of subsidiaries resulting from the cash management measures implemented by TLG IMMOBILIEN.

Of the other liabilities totalling EUR 4.9 m, EUR 1.2 m consists of grants for leased properties that have to be passed on to the lessees in the form of reduced payments over the term of the lease.

The deferred income of EUR k 693 essentially consists of advance rent payments.

The deferred tax liabilities are due to the following items and have changed as follows compared to the previous year:

Deferred taxes on differences for	31/12/2016 EUR k	31/12/2015 EUR k	Change EUR k
Property, plant and equipment (offset)	−11,013	2,220	−13,233
Trade receivables	379	455	−76
Special tax item (§ 6b EStG)	−48,575	−60,101	11,525
Pension provisions	534	611	−76
Other provisions	772	305	467
Other liabilities	0	−1	1
Deferred taxes for temporary differences	**−57,903**	**−56,511**	**−1,392**
Deferred tax assets on (tax) interest carryforward	3,670	3,368	302
Deferred tax liabilities after offsetting	**−54,233**	**−53,143**	**−1,090**

The calculation was based on a tax rate of 30.675 %. This is determined by the currently applicable tax rates, indices and base amounts, as well as an average regional tax rate of 424 %.

5. CONTINGENT LIABILITIES

Of the credit of TLG IMMOBILIEN, EUR 0.6 m is restricted. Under a framework guarantee agreement with DKB (Deutsche Kreditbank), TLG IMMOBILIEN has entered into the obligation to pledge EUR 0.3 m of its bank balance (to match the guarantees) to the bank as collateral for guarantees it has issued that had not expired by the end of the term of the guarantee line. TLG IMMOBILIEN has duly fulfilled its obligations so far and has not had to resort to pledged credit. It is therefore unlikely that TLG IMMOBILIEN will be sued by DKB.

With regard to the acquisition of properties by subsidiaries, TLG IMMOBILIEN has issued a suretyship of EUR 1.5 m to each seller. It is unlikely that claims will be filed against the company.

Until the end of the following financial year, TLG IMMOBILIEN is liable towards affiliated companies whose liabilities it has undertaken to assume for the purposes of the regulations on exemption in § 264 (3) HGB in the amount of the obligations entered into by the reporting date. It is unlikely that claims will be filed against the company.

6. SIGNIFICANT OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

SIGNIFICANT OFF-BALANCE-SHEET TRANSACTIONS

Besides the contracts and outstanding measures disclosed under other financial obligations, there are no significant off-balance-sheet transactions with a considerable effect on the future financial position of the company.

OTHER FINANCIAL OBLIGATIONS

RENTAL, LEASE AND SERVICE CONTRACTS

The company has diverse service contracts for IT services, building cleaning, reception staff and security services, as well as vehicle rental contracts for its fleet of vehicles.

These operating leases serve the company's ongoing business operations and are advantageous in that high investment measures and the corresponding outflow of cash are not necessary. The operating leases are not considered risky.

Due to the active agreements that could not be terminated as at the reporting date, the amounts payable in following years are as follows:

	EUR k
2017	620
2018	312
2019	40
Total	**972**

Of the total amount, EUR k 256 is attributable to rental agreements, EUR k 519 is attributable to service contracts and EUR k 197 is attributable to leases.

The company has a commitment of EUR 5.8 m for contracted measures for investments in its property portfolio as well as acquisition projects where the services have not yet been rendered. The company also has other commitments that can be considered conventional for its line of business.

7. DERIVATIVE FINANCIAL INSTRUMENTS (EXCLUSIVELY TRANSACTIONS BASED ON INTEREST)

Type	Amount as at 31/12/2016 EUR m	Fair value of hedging instrument EUR m	Potential loss (if applicable) EUR m	Line item (if in the statement of financial position)
Interest rate derivatives used as hedges (fully effective)	422.5	−7.9	0.0	n/a
Interest rate derivatives used as hedges (with ineffectiveness)	190.9	−10.4	−2.0	Other provisions
Total	**613.4**	**−18.3**	**−2.0**	

Interest rate derivatives safeguard the interest rate of loans that have been taken out. They were measured using the mark-to-market method.

The following units of account were formed:

Underlying transaction/hedging instrument	Risk/type of unit of account	Amount paid	Extent of the hedged risk
Loans to financial institutions/interest rate derivatives	Interest rate risk/micro-hedges	EUR 613.4 m	EUR 613.4 m

The current cash flows from the underlying and hedging transactions are expected to balance one another out almost entirely in the 2017 – 2026 hedging period as the risk policies of the Group require risk-weighted items (the underlying transaction) to be secured by interest rate hedges of equal value and with the same currency and term as soon as they are created. As at the reporting date, the current cash flows from the underlying and hedge transactions almost completely balanced one another out. The net hedge presentation method was used to present them in the statement of financial position. The dollar offset method is used to determine the effectiveness of the hedge. The critical terms match method was used to evaluate the prospective effectiveness.

8. TRANSACTIONS WITH RELATED PARTIES

No significant transactions took place with related parties under unusual conditions.

9. INCOME

The revenue of EUR 186.2 m (previous year EUR 180.0 m) comprises EUR 153.7 m (previous year EUR 136.8 m) from letting activities, EUR 32.0 m (previous year EUR 42.9 m) from the sale of land and EUR 0.6 m (previous year EUR 0.3 m) from other goods and services.

Of the other operating income totalling EUR 17.0 m, EUR 2.4 m is attributable to income from the reversal of provisions. It also contains EUR 0.4 m in prior-period income. It contains income of EUR 1.1 m from the reversal of the special item for investment subsidies and grants. The income from reversals of write-downs of land and buildings was EUR 8.9 m and the income from the reimbursement of land redevelopment costs was EUR 2.1 m.

10. EXPENSES

The amortisation of intangible fixed assets and depreciation of property, plant and equipment contain write-downs to the lower fair value totalling EUR 6.8 m due to a permanent impairment.

The other operating expenses of EUR 10.1 m contain allowances and impairments of receivables and other assets (EUR 0.6 m).

11. ASSETS HELD IN TRUST

TLG IMMOBILIEN holds credit from rental deposits totalling EUR 3.1 m in trust (previous year EUR 3.0 m).

12. STATEMENT OF EVENTS AFTER THE REPORTING DATE

With the approval of the Supervisory Board, on 30 January 2017 the Management Board of TLG IMMOBILIEN AG carried out a capital increase in exchange for cash contributions which involved the partial utilisation of the authorised capital for 2016.

As part of the capital increase, TLG IMMOBILIEN made 6.7 m new shares available to institutional investors at an issue price of EUR 17.20 per share by means of accelerated book building. The gross proceeds were therefore around EUR 116.0 m.

The company intends to use the net proceeds from the private placement to finance its most recent and future acquisitions of German office and retail properties in line with its stated acquisition criteria, as well as for general business purposes.

The new shares are fully entitled to dividends from 1 January 2016 onwards.

13. AUDITOR FEES

The disclosures regarding auditor fees are made in the consolidated financial statements of TLG IMMOBILIEN which are available in the electronic Federal Gazette.

14. NUMBER OF EMPLOYEES

In the financial year, TLG IMMOBILIEN AG employed an average of 106 permanent and five temporary personnel. Additionally, it employed an average of five apprentices and one member of staff on maternity leave.

15. MANAGEMENT BOARD

The Management Board has the following members:

- Peter Finkbeiner,
- Niclas Karoff

The members of the Management Board perform their roles as their main occupation.

In 2016 the total remuneration of the Management Board was EUR k 1,233.

In 2016 the total remuneration for former members of the management was EUR k 153 from pensions. As at 31 December 2016 the pension provisions for former members of the management totalled EUR k 2,200.

More information on the remuneration of the Management Board is available in the management report (remuneration report).

16. SUPERVISORY BOARD

The Supervisory Board consists of the following members:

Michael Zahn (Chairman of the Supervisory Board)	Member since 05/09/2014 Chairman since 08/09/2014
Chairman of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Chairman of the capital measures committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
CEO of Deutsche Wohnen AG, Berlin	
Chairman of the Supervisory Board of GSW Immobilien AG, Berlin	
Chairman of the Supervisory Board of Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin	
Chairman of the Advisory Board of G+D Gesellschaft für Energiemanagement GmbH, Magdeburg	
Chairman of the Advisory Board of Funk Schadensmanagement GmbH, Berlin	
Member of the Advisory Board of DZ Bank AG, Frankfurt am Main	
Member of the Advisory Board of Füchse Berlin Handball GmbH, Berlin	since 15/09/2016
Member of the Real Estate Advisory Board of GETEC Wärme & Effizienz AG, Magdeburg	since 08/11/2016
Alexander Heße (Vice-chairman)	05/09/2014 – 31/05/2016
Member of the presidential and nomination committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	01/10/2014 – 31/05/2016
Senior Managing Director and Co-Head European Real Estate Investments, Lone Star Germany Acquisitions GmbH	
Chairman of the Supervisory Board of Globe Trade Center S.A., Warsaw	
Director, Lone Star Spain Acquisitions SL, Madrid	
Director, Lone Star France Acquisitions SARL, Paris	
Director, Lone Star Netherlands Acquisitions B.V., Amsterdam	
Dr Michael Bütter	since 25/09/2014
Member of the presidential and nomination committee of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Member of the capital measures committee of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
Member of the Executive Committee and Group General Counsel Scout 24 AG, Berlin	
Member of the Board of Directors, ADO Properties S.A., Luxembourg	
Chairman of the Audit Committee of ADO Properties S.A., Luxembourg	
Member of the Investment and Finance Committee of ADO Properties S.A., Luxembourg	
Member of the Advisory Board of Corestate Capital Holding S.A., Luxembourg	since 01/01/2017
Member of the Supervisory Board of Assmann Beraten + Planen AG, Berlin	since 01/04/2016
Dr Claus Nolting	since 05/09/2014
Member of the audit committee of TLG IMMOBILIEN AG, Berlin	since 25/09/2015
Lawyer and consultant	
Vice-chairman of the Supervisory Board of IKB Deutsche Industriebank, Düsseldorf	
Chairman of the risk and audit committee of IKB Deutsche Industriebank, Düsseldorf	since 25/02/2016
Member of the nomination committee of IKB Deutsche Industriebank, Düsseldorf	
Member of the remuneration management committee of IKB Deutsche Industriebank, Düsseldorf	
Member of the Supervisory Board of Hamburg Trust Real Estate Management GmbH, Hamburg	
Member of the Supervisory Board of LEG Immobilien AG, Düsseldorf	since 19/05/2016
Chairman of the Supervisory Board of MHB-Bank AG, Frankfurt am Main	since 22/12/2016
Elisabeth Talma Stheeman	since 25/09/2014
Member of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 01/10/2014
Independent Non-Executive Board Director	
Governor of the London School of Economics (LSE), London	
Member of the audit committee of the London School of Economics (LSE), London	until 31/07/2016
Vice-chairperson of the financial committee of the London School of Economics (LSE), London	since 01/08/2016
Senior Advisor, Bank of England/Prudential Regulation Authority (PRA), London	
Member of the Supervisory Board of Aareal Bank AG, Wiesbaden	
Vice-chairperson of the risk committee of Aareal Bank AG, Wiesbaden	
Member of the technology and innovation committee of Aareal Bank AG, Wiesbaden	
Helmut Ullrich	since 23/07/2015
Chairperson of the audit committee of the Supervisory Board of TLG IMMOBILIEN AG, Berlin	since 13/08/2015
Member of the capital measures committee of TLG IMMOBILIEN AG, Berlin	since 10/11/2016
Member of the Supervisory Board of GSW Immobilien AG, Berlin	
Chairperson of the audit committee of GSW Immobilien AG, Berlin	

The total remuneration of the Supervisory Board in the 2016 financial year was EUR k 252. Additionally, the members are paid a net attendance fee of EUR 1,500 per day every time they attend a meeting. More information on the remuneration of the Supervisory Board is available in the management report (remuneration report).

17. PROPOSED APPROPRIATION OF PROFITS

In accordance with the German Stock Corporation Act (AktG), the general meeting resolves on the appropriation of the net profit presented in the annual financial statements. It is likely that the payment of a dividend of EUR 0.80 per no-par value share from the net profit will be proposed to the general meeting. The dividend is based on the number of qualifying no-par value shares on the date of the resolution on the appropriation of the net profit by the general meeting. After the general meeting, the resolution on the appropriation of the net profit will be published in the Federal Gazette.

18. INVESTMENTS SUBJECT TO DISCLOSURE ACCORDING TO § 160 AKTG

According to § 160 (1) no. 8 AktG, disclosures must be made regarding the existence of investments that have been reported to TLG IMMOBILIEN AG according to § 21 (1) or (1a) of the German Securities Trading Act (WpHG). The following table lists the investments reported to the company. Each disclosure was taken from the latest notification sent to TLG IMMOBILIEN AG by an entity obliged to provide it.

All publications by TLG IMMOBILIEN AG in connection with notifications of investments in the reporting year and beyond are available on the website of TLG IMMOBILIEN AG under *www.tlg.eu > Investor Relations > Financial* news. Please note that the last disclosed number of voting rights might since have changed within the thresholds without the shareholders being obliged to inform the company.

Entity obliged to report	**Voting rights in the sense of § 21 and 22 WpHG (new)**	**Proportion of voting rights (new)** in %	**Affected threshold values**	**Proportion of instruments in the sense of § 25 (1) WpHG** in %	**Date threshold reached**	**Addition of voting rights in the sense of § 22 WpHG**	**Companies that have allocated 3% or more**
GIC Private Limited	8,173,138	13.3	Crossing 3%, 5%, 10%		24/07/2015	No	
ADAR Macro Fund Ltd.	4,947,165	7.34	Crossing 3%, 5%	2.67	14/11/2016	No	
Welwel Investments Ltd.	4,947,165	7.34	Crossing 3%, 5%	2.67	14/11/2016	Yes	ADAR Capital Partners Ltd.
Allianz Global Investors GmbH	3,324,105	4.93	Shortfall 5%		09/11/2016	Yes	Allianz Global Investors GmbH
Principal Financial Group Inc.	2,282,192	3.38	Crossing 3%		03/02/2016	Yes	
BlackRock, Inc.	2,431,742	3.28	Crossing 3%	1.11	07/02/2017	Yes	
Artemis Investment Management LLP	2,018,896	2.99	Shortfall 3%		24/11/2016	Yes	
Royale Universal Inc.	0	0	Shortfall 3%		01/05/2016	No	

19. CORPORATE GOVERNANCE

The declaration required by § 161 AktG has been submitted by the Management and Supervisory Boards and is available in the Investor Relations section of the website of the company, *www.tlg.eu*.

20. GROUP AFFILIATION

TLG IMMOBILIEN AG is the parent company of the Group and prepares its own consolidated financial statements which are available in the electronic Federal Gazette.

Berlin, 10 February 2017

Peter Finkbeiner Member of the Management Board	Niclas Karoff Member of the Management Board

STATEMENT OF CHANGES IN FIXED ASSETS

01/01/2016 – 31/12/2016

	Historical costs				
	01/01/2016 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	31/12/2016 EUR
A. Assets					
I. Intangible assets					
Purchased software	7,479,574.28	136,226.64	3,617.47	0.00	7,612,183.45
	7,479,574.28	136,226.64	3,617.47	0.00	7,612,183.45
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land	1,663,045,328.03	236,906,604.13	51,609,523.58	21,652,370.60	1,869,994,779.18
2. Technical equipment and machinery	868,141.13	0.00	784,036.28	85,000.00	169,104.85
3. Other equipment, operating and office equipment	3,618,662.96	150,299.64	1,669,247.67	0.00	2,099,714.93
4. Advance payments and assets under construction	17,136,229.07	9,151,243.94	114,082.66	-21,737,370.60	4,436,019.75
	1,684,668,361.19	246,208,147.71	54,176,890.19	0.00	1,876,699,618.71
III. Financial assets					
1. Shares in affiliated companies	80,653,548.47	191,443,177.34	7,364,747.69	0.00	264,731,978.12
2. Other loans	2,534,620.47	62,197.09	77,693.96	0.00	2,519,123.60
	83,188,168.94	191,505,374.43	7,442,441.65	0.00	267,251,101.72
	1,775,336,104.41	437,849,748.78	61,622,949.31	0.00	2,151,562,903.88

Cumulative depreciation					Carrying amounts	
01/01/2016 EUR	Additions EUR	Disposals EUR	Reversals of write-downs EUR	31/12/2016 EUR	31/12/2016 EUR	31/12/2015 EUR
7,077,492.54	289,421.03	3,617.47	0.00	7,363,296.10	248,887.35	402,081.74
7,077,492.54	289,421.03	3,617.47	0.00	7,363,296.10	248,887.35	402,081.74
407,664,304.19	52,348,755.57	30,496,794.58	8,854,754.50	420,661,510.68	1,449,333,268.50	1,255,381,023.84
591,940.13	19,631.00	581,987.28	0.00	29,583.85	139,521.00	276,201.00
3,411,911.60	120,360.00	1,661,477.67	0.00	1,870,793.93	228,921.00	206,751.36
0.00	0.00	0.00	0.00	0.00	4,436,019.75	17,136,229.07
411,668,155.92	52,488,746.57	32,740,259.53	8,854,754.50	422,561,888.46	1,454,137,730.25	1,273,000,205.27
0.00	0.00	0.00	0.00	0.00	264,731,978.12	80,653,548.47
0.00	0.00	0.00	0.00	0.00	2,519,123.60	2,534,620.47
0.00	0.00	0.00	0.00	0.00	267,251,101.72	83,188,168.94
418,745,648.46	52,778,167.60	32,743,877.00	8,854,754.50	429,925,184.56	1,721,637,719.32	1,356,590,455.95

REPORT ON THE POSITION OF THE COMPANY AND THE GROUP

REPORT ON THE POSITION OF THE COMPANY AND THE GROUP 2016

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

The TLG IMMOBILIEN Group (TLG IMMOBILIEN) has positioned itself as a leading specialist in commercial real estate in Berlin and the regional growth centres of Dresden, Leipzig and Rostock, as well as in Frankfurt am Main from early 2017 onwards. TLG IMMOBILIEN sees itself as an active portfolio manager and manages office and retail properties as well as seven hotels. Its portfolio strategy focuses on well-maintained properties in outstanding locations which generate sustainable rental income.

The business model and the corporate strategy of TLG IMMOBILIEN are based on the following pillars:

- Strategic portfolio management
  Thanks to a deep understanding of local markets and real estate, strategic services such as strategic portfolio management and monitoring, valuation and portfolio planning are rendered centrally.

- Asset and property management
  TLG IMMOBILIEN covers significant links in the real estate value chain internally. Its various branches bear a decentralised responsibility for technical and commercial management of properties, including tenant relations.

- Acquisitions and sales
  With its many years of expertise, TLG IMMOBILIEN is exceptionally well connected in its core markets. This generates attractive opportunities for the company to grow and chances to sell non-strategic properties for the best possible prices.

The objective of the business activities is – in addition to the efficient management and development of the high-quality property portfolio – the continued expansion of the portfolio through profitable acquisitions of office, retail and hotel properties in the core regions. Targeted acquisition of properties with potential for increased rents or moderate vacancy rates and the subsequent active asset management results in the potential to increase profitability via optimised letting and management. In addition to growth through acquisitions, the company is increasingly focused on the disposal of non-strategic properties (from the 'other' asset class) as well as office and retail properties that no longer fit in with the portfolio. Its objective is to ensure the high overall quality and profitability of its portfolio in the long term.

1.2 CONTROL SYSTEMS

The objective of TLG IMMOBILIEN's control system is the permanent and stable further development of the property portfolio as well as the generation of high and sustainable earnings from its management in the interest of the shareholders, employees and business partners. The fully integrated business plan, which has to be prepared annually and which covers a medium-term planning horizon of three years, serves as the basis. The key components of the business plan are rental income, management, investments and disposals, administrative costs and finance. The sub-plans are reflected in the income, asset and financial planning of the Group.

Monthly reports on a corporate and portfolio level guarantee internal transparency with regard to the performance of the company during the year, e.g. by means of the key performance indicators. In particular, the main key performance indicators are the funds from operations (FFO), net loan to value ratio (net LTV) and the EPRA Net Asset Value (EPRA NAV), which are also disclosed in the quarterly reports. The drivers of these three key performance indicators, such as rental income, weighted averge lease term (WALT), vacancy rates and investments, are monitored and reported on every month in the controlling reports. Monthly performance analyses serve to evaluate the current performance of the company and facilitate the punctual implementation of controlling measures.

The formula for calculating the key performance indicators of the company is illustrated in the section concerning financial performance indicators in this report on the position of the company and the Group.

The management of TLG IMMOBILIEN is the responsibility of the Management Board. The Supervisory Board monitors and advises the Management Board on its managerial activities in line with the internal regulations of the company and the expectations of its shareholders. On the reporting date, the Supervisory Board consisted of five members.

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND REAL ESTATE MARKETS

2.1.1 General economic situation

Economic developments in Germany in 2016 were once again characterised by solid, steady economic growth. According to the initial calculations of the Federal Statistical Office, the average real gross domestic product (GDP) in 2016 was 1.9% higher than in the previous year. It was also half a percentage point above the average of the previous ten years, which was 1.4%. Consumer spending increased by 2.5% overall and was the strongest – yet not the sole – driver of economic growth in Germany. Investments also made a significant contribution. For example, the volume of real investments in construction increased by 3.1% due in particular to significantly larger investments in residential buildings. Likewise, investments in fittings were 1.7% higher than in the previous year.

Compared to the previous year, employment rates continued to increase and with an annual average of almost 43.5 million workers in Germany in 2016, they reached their highest level since 1991. According to the first preliminary figures released by the Federal Statistical Office, in 2016 around 429,000 more people were employed than in 2015 (a 1% increase), which shows that the upwards trend that has been in effect for almost a decade has not lost momentum. Labour productivity in 2016, measured as the real GDP per person-hour, was 1.2% higher than in the previous year. Measured per working person, labour productivity increased by 0.9%.

In 2016, the real estate investment market was influenced by robust economic developments in Germany and two other major factors: monetary policies and political risks. In light of persistently low interest rates, investments in real estate remained an attractive option for investors in 2016. Although the volume of transactions over the course of the year initially hinted at a significantly weaker result than in the previous year, the highly active final quarter ensured that, according to Jones Lang LaSalle (JLL), a transaction volume of EUR 52.9 bn – and therefore the third-strongest result in a long-term comparison – was reached, which represents a decrease of just 4% from the record high in the previous year. The seven major German investment markets – Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – experienced a roughly 5% decline in the volume of transactions to EUR 29.6 bn, although at around 56% the relative share of these locations in the overall market remained constant. Although Berlin and Munich had the best turnover statistics for most of the year, Frankfurt was able to regain the lead by the end of the year. On average, the initial yields in the seven major investment markets decreased by 59 basis points to 3.56% due to the high level of demand.

2.1.2 Development of the office property market

The positive developments in Germany's economy and labour market, especially the above-average increase in employment rates in the expansive service sectors, had a significant influence on office property markets in 2016. According to JLL, in 2016 the volume of turnover of the seven main office property hubs reached a record high of around 3.9 million sqm, overtaking the exceptional result of the previous year by 9%. The five-year average was even surpassed by 24%.

According to JLL, the highest volume of turnover was once again attributable to Berlin where a total of 913,400 sqm of space was rented out; this represents an increase of 3.9% over the previous year. With turnover of 780,000 sqm and 550,000 sqm respectively, Munich and Hamburg were in second and third place.

Despite increasing completion rates, office vacancy rates fell by almost 600,000 sqm to just under 5.1 million sqm over the course of the year. This is equivalent to an aggregated vacancy rate of just 5.5%. Only Frankfurt and Düsseldorf experienced above-average vacancy rates with 9.1% and 8.1% respectively; Stuttgart had the lowest vacancy rate at 3.7%, followed by Berlin with 4.3%.

In 2016, the volume of new buildings in the top seven cities grew by almost 28% to 1.1 million sqm, yet just 190,000 sqm (or 17%) were still available by the time construction had finished. The trend of increasing rents in project developments is continuing unabated.

Combined with strong user demand, the positive developments in the office property markets caused both top and average rents to increase in 2016. With the exception of Cologne, the top rents increased in all other major real estate centres, with increases ranging from 2% in Düsseldorf and Hamburg to 13% in Berlin.

2.1.3 Development of the retail property market

According to the market research institute GfK, consumer confidence in Germany was generally positive at the end of 2016. The economic expectations of consumers improved slightly and income expectations increased significantly, even though this did not affect their willingness to make purchases which fell slightly yet remained at a high level overall. The outcome of the US presidential election has not yet had any quantifiable impact on the mood of consumers who evidently do not expect the German economy to be affected directly over the next few months.

The positive economic developments, especially the increase in consumption and the growing levels of retail turnover, created a healthy environment for the retail property market in 2016. According to JLL, with a transaction volume of EUR 12 bn or a share of 23%, retail properties were the second-largest asset class in the German commercial real estate investment market in 2016.

In 2016, the total letting turnover for German retail properties hit 487,400 sqm and was therefore around 7% lower than in the previous year. In contrast, the number of new rental agreements remained constant at 1,070 transactions. Around 180,000 sqm or 37% of the rented space was attributable to the ten largest retail locations in Germany. By the end of the year, Berlin, Frankfurt and Stuttgart had proven to be the locations with the highest levels of turnover, whereas Hamburg, Cologne and Düsseldorf failed to reach their long-term averages.

2.1.4 Development of the hotel property market

According to the Federal Statistical Office, between January and November 2016 the number of overnight stays by guest in Germany increased by 3% over the previous year to 420.2 m. This figure includes 75.2 m overnight stays by international guests (+1%) and 345.0 m overnight stays by German guests (+3%). The Federal Statistical Office expects the figure to hit a record 448 m in 2016 as a whole.

According to the German Hotel and Restaurant Association (DEHOGA), this positive trend is also reflected in the turnover of the hotel and restaurant industry. For example, between January and September 2016, hospitality businesses alone experienced real turnover growth of 2.2% over the same period in the previous year.

In light of the positive developments in the tourism sector, in 2016 BNP Paribas Real Estate recorded another increase in the volume of transactions in the hotel investment market, surpassing the EUR 5 bn mark for the first time. The annual profit of EUR 5.18 bn also represents the seventh increase in turnover in a row. With almost EUR 3.1 bn and EUR 2.1 bn respectively, individual investments and portfolios alike reached record highs. The highly active final quarter was noteworthy in this regard.

2.2 COURSE OF BUSINESS

GENERAL STATEMENT

In the 2016 financial year, TLG IMMOBILIEN was able to continue implementing its growth strategy successfully. Overall, the company surpassed the key performance indicators described in its forecast report in 2015. As a result of successful portfolio management in combination with the acquisition of high-quality properties, the portfolio of TLG IMMOBILIEN was as follows as at 31 December 2016:

Key figures	Total	Office	Retail	Hotel	Others
Property value (EUR k) [1]	2,241,615	1,004,110	896,198	272,029	69,277
Annualised in-place rent (EUR k) [2]	155,276	64,993	69,259	16,122	4,902
In-place rental yield (%)	6.9	6.5	7.7	5.8	6.9
EPRA Vacancy Rate (%)	3.8	5.2	2.4	2.4	8.0
WALT (years)	6.1	5.0	5.4	13.1	7.9
Properties (number)	404	60	278	7	59
Lettable area (sqm)	**1,418,975**	**603,644**	**597,641**	**109,482**	**108,209**

[1] In line with values disclosed according to IAS 40, IAS 2, IAS 16 and IFRS 5
[2] The annualised in-place rent is calculated using the annualised rents agreed as at the reporting date – not factoring in rent-free periods.

As at 31 December 2016, the property portfolio of TLG IMMOBILIEN comprised 404 properties in total (previous year 418) with a fair value (IFRS) of around EUR 2.242 bn (previous year around EUR 1.766 bn). This 26.9% increase is due primarily to the acquisitions added to the portfolio in the 2016 financial year which, with a value of EUR k 436,855, make up 19.5% of the portfolio. As a result, the fair value of the acquisitions made between 2014 and 2016 has increased to EUR k 750,490 or 33.5% in total.

As at 31 December 2016, the acquisitions made in 2016 had been allocated to the following asset classes:

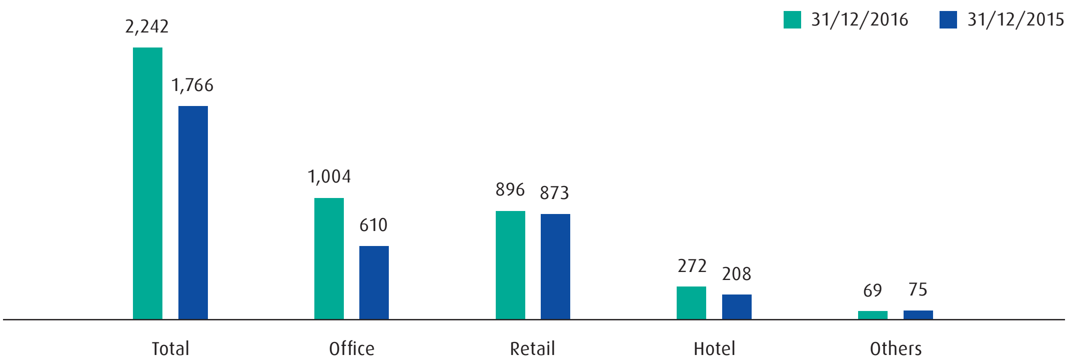
Asset class	Addition to portfolio	Address	Fair value (EUR m) [1]	Annualised in-place rent (EUR m)	WALT (years)	EPRA Vacancy Rate (%)
Office	Q4 2016	Frankfurt am Main, Lyoner Strasse 25	85.8	5.5	5.4	1.9
Office	Q4 2016	Frankfurt am Main, Olof-Palme-Strasse 35	75.0	4.3	9.0	0.0
Office	Q2 2016	Leipzig, Prager Strasse 118, 120, 126, 128, 130, 132, 134	58.3	3.3	8.4	0.3
Office	Q2 2016	Berlin, Aroser Allee 68	51.9	3.0	4.3	6.1
Office	Q4 2016	Berlin, Kapweg 3, 4, 5	30.6	0.7	6.0	58.5
Office	Q1 2016	Dresden, Am Schiesshaus 1–3	13.9	0.9	8.4	2.7
Office	Q1 2016	Stuttgart, Industriestrasse 48	12.1	0.9	1.7	1.2
Office	Q1 2016	Berlin, Kronenstrasse 5	9.5	0.4	5.1	2.2
Office	Q1 2016	Berlin, Kronenstrasse 6	8.7	0.3	4.5	4.8
Office	Q1 2016	Essen, Bismarckstrasse 36/Friedrichstrasse 12	7.0	0.6	1.6	0.0
Office	Q1 2016	Magdeburg, Grosse Diesdorfer Strasse 228–229/Schenkendorfstrasse 1	5.6	0.6	3.6	9.1
Office	Q1 2016	Chemnitz, Zwickauer Strasse 16, 16a, 16b	1.2	0.4	2.9	29.2
Office acquisitions in 2016			**359.4**	**20.9**	**6.3**	**8.7**
Retail	Q4 2016	Dresden, Merianplatz 4	20.3	1.4	3.2	1.0
Retail	Q4 2016	Dresden, Merianplatz 3	3.6	0.3	3.8	1.8
Retail acquisitions in 2016			**23.9**	**1.7**	**3.3**	**1.2**
Hotel	Q1 2016	Leipzig, Am Hallischen Tor 1/Brühl 33/ Richard-Wagner-Strasse 9	27.6	1.6	8.6	12.2
Hotel	Q1 2016	Dresden, Wiener Platz 8/9	25.9	1.7	9.1	2.6
Hotel acquisitions in 2016			**53.5**	**3.3**	**8.8**	**7.8**
Total acquisitions in 2016			**436.9**	**25.9**	**6.4**	**8.1**

[1] In line with values disclosed according to IAS 40

In the 2016 financial year, 82.3% of acquisitions were office properties followed by hotels with 12.2% and retail properties with 5.5%. By acquiring two office properties in Frankfurt am Main, TLG IMMOBILIEN has expanded its portfolio strategically into western Germany. Besides Frankfurt am Main, which with 36.8% of acquisitions accounts for the largest proportion, the majority of acquisitions were made in Berlin again (23.0%) as well as in the eastern German growth regions of Leipzig (19.7%) and Dresden (14.6%).

The fair values of the individual asset classes developed as follows:

in EUR m



Due in particular to the acquisitions made in 2016, office properties increased by 64.5% to EUR k 1,004,110 (previous year EUR k 610,219 including the reclassification of three office properties worth EUR k 3,250 from the non-core portfolio). Making up 44.8% of the value of the portfolio (previous year 34.6%), office properties are therefore the strongest asset class for the first time, followed by retail properties with 40.0% (previous year 49.5%) and hotels with 12.1% (previous year 11.8%). As the acquisitions made in 2016 focused on office properties, with a fair value of EUR k 896,198 (previous year EUR k 873,390) retail properties only experienced a moderate 2.6% increase in value. In contrast, the acquisition of two centrally located hotels in Dresden and Leipzig meant that the hotel asset class was given a 31.1% boost to EUR k 272,029 (previous year EUR k 207,565). In the other asset class, disposals in particular caused the portfolio value to decrease by 7.2% to EUR k 69,277 (previous year EUR k 74,661 less three properties worth EUR k 3,250 that were reclassified as office properties).

With regard to the portfolio as a whole, the annualised in-place rent increased by 18.2% to EUR k 155,276 in the reporting year (an increase of 1.2% on a like-for-like basis). At 3.8% (previous year 3.7%), the EPRA Vacancy Rate of the entire portfolio has remained almost constant. Although the EPRA Vacancy Rate remained low at 2.8% on a like-for-like basis, a decrease of 0.9 percentage points following a sale was balanced out by an increase of 1.1 percentage points following an acquisition. The weighted average lease term (WALT) of the temporary rental agreements decreased from 6.5 years to 6.1 years overall. On a like-for-like basis, the 0.6-year decrease in the WALT to 6.1 years was slowed slightly by new rental agreements and extensions of rental agreements.

2.3. NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

2.3.1 Results of operations

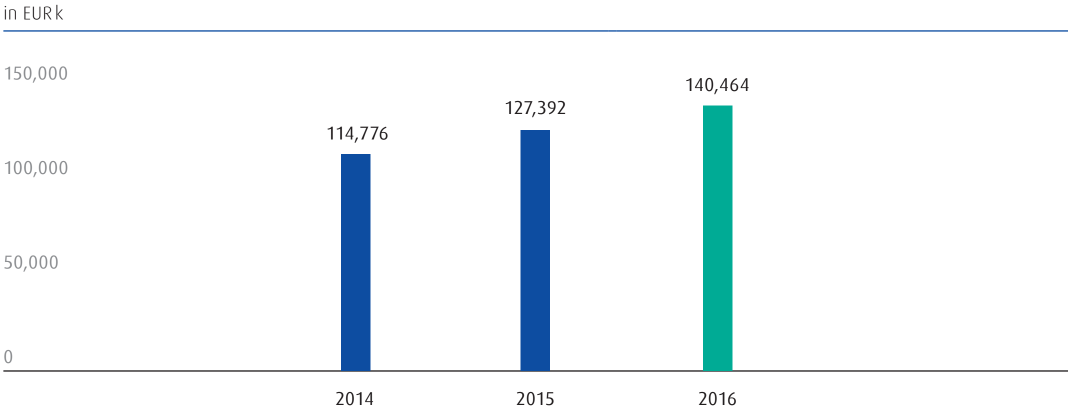
The net income of TLG IMMOBILIEN was EUR k 94,109 in the 2016 financial year. The income was EUR k 36,753 lower than in the previous year. This is due mainly to the higher gains from the remeasurement of investment property in 2015. The increase in rental income of EUR k 11,492 had a positive effect. The table below presents the results of operations:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Net operating income from letting activities [1]	**125,588**	**114,096**	**11,492**	**10.1**
Result from the remeasurement of investment property	39,860	87,856	−47,996	−54.6
Result from the disposal of investment property	6,381	7,972	−1,591	−20.0
Result from the disposal of real estate inventories	10	771	−761	−98.7
Other operating income [1]	777	4,181	−3,404	−81.4
Personnel expenses	−11,261	−12,807	1,546	−12.1
Depreciation and amortisation	−561	−760	199	−26.2
Other operating expenses [1]	−7,140	−7,881	741	−9.4
Earnings before interest and taxes (EBIT)	**153,654**	**193,426**	**−39,772**	**−20.6**
Financial income	313	443	−130	−29.3
Financial expenses	−25,650	−23,849	−1,801	7.6
Gain/loss from the remeasurement of derivative financial instruments	299	−848	1,147	n/a
Earnings before taxes	**128,616**	**169,172**	**−40,556**	**−24.0**
Income taxes	−34,507	−38,311	3,804	−9.9
Net income	**94,109**	130,862	−36,753	−28.1
Other comprehensive income (OCI)	−2,044	1,738	−3,782	n/a
Total comprehensive income	**92,065**	**132,600**	**−40,535**	**−30.6**

[1] Reclassifications of account items in the financial year caused individual values from the previous year to change (see section F of the notes).

In 2016, the net operating income from letting activities was EUR k 125,588 which represents an increase of EUR k 11,492 compared to the previous year, due in particular to the operational management of newly acquired properties. Rental income developed as follows:

Rental income



In the 2016 reporting year, the result from the remeasurement of investment property was EUR k 47,996 lower than in the same period in 2015, reaching a volume of EUR k 39,860. The measurement gains are due primarily to the favourable market conditions, primarily to Berlin and the office property asset class.

Compared to the same period in the previous year, the result from the disposal of properties decreased by a total of EUR k 2,352 to EUR k 6,391.

Other operating income was EUR k 777 and was therefore EUR k 3,404 lower than in the previous year. Essentially, it was influenced by the reversal of allowances totalling EUR k 529, which was EUR k 777 lower than in the previous year, as well as out-of-period income of EUR k 311 that was EUR k 293 lower. Additionally, the 2015 financial year included EUR k 950 in special items from insurance compensation and damages.

In the 2016 financial year, personnel expenses decreased by EUR k 1,546 to EUR k 11,261. This is due primarily to the share-based payment components according to IFRS 2 in the previous year that were linked with the IPO.

At EUR k 7,140, other operating expenses were EUR k 741 lower than in 2015. The decrease was the result of optimisations to IT and administrative costs as well as other operating expenses. The changes in consultancy and audit fees had the opposite effect.

In 2016, financial expenses increased by EUR k 1,801 to EUR k 25,650 compared to the same period in the previous year. This was due in particular to higher expenditure on interest hedges and increased other financing expenses.

In the 2016 financial year, there was income of EUR k 299 from the remeasurement of derivative financial instruments (previous year EUR k −848). In both years, the measurement gains/losses are due essentially to ineffectiveness in derivatives being used as hedging instruments and derivatives outside of a hedge.

The income taxes comprise ongoing income taxes of EUR k 5,986, items for actual income taxes of EUR k −1,577 from other periods and deferred taxes of EUR k 30,098.

EBITDA calculation

in EUR k	01/01/2016 – 31/12/2016	01.01.2015 – 31.12.2015	Change	Change in %
Net income	**94,109**	**130,862**	**−36,753**	**−28.1**
Income taxes	34,507	38,311	−3,804	−9.9
EBT	128,616	169,173	−40,557	−24.0
Net interest	25,337	23,406	1,931	8.3
Gain/loss from the remeasurement of derivative financial instruments	−299	848	−1,147	n/a
EBIT	153,654	193,427	−39,773	−20.6
Depreciation and amortisation	561	760	−199	−26.2
Result from the remeasurement of investment property	−39,860	−87,856	47,996	−54.6
EBITDA	**114,355**	**106,331**	**8,024**	**7.5**

In the 2016 financial year, TLG IMMOBILIEN generated an EBITDA of EUR k 114,355. The increase compared to the previous year was EUR k 8,024, due essentially to the higher net operating income from letting activities.

2.3.2 Financial position

Cash flow statement

Due primarily to property acquisitions, the following cash flows caused the cash and cash equivalents to decrease overall by the end of the year:

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
1. Net cash flow from operating activities	**88,044**	**83,914**	**4,130**	**4.9**
2. Cash flow from investing activities	−414,107	−150,288	−263,819	175.5
3. Cash flow from financing activities	210,744	97,511	113,233	116.1
Net change in cash funds	**−115,321**	**31,137**	**−146,458**	**n/a**
Cash and cash equivalents at beginning of period	183,736	152,599	31,137	20.4
Cash and cash equivalents at end of period	**68,415**	**183,736**	**−115,321**	**−62.8**

The net cash flow from operating activities increased by EUR k 4,130 compared to 31 December 2015, totalling EUR k 88,044 as at 31 December 2016, due primarily to the increase in rental income. Income tax payments and higher interest payments had the opposite effect.

The negative cash flow from investing activities of EUR k 414,107 essentially reflected the cash paid for the acquisition of properties.

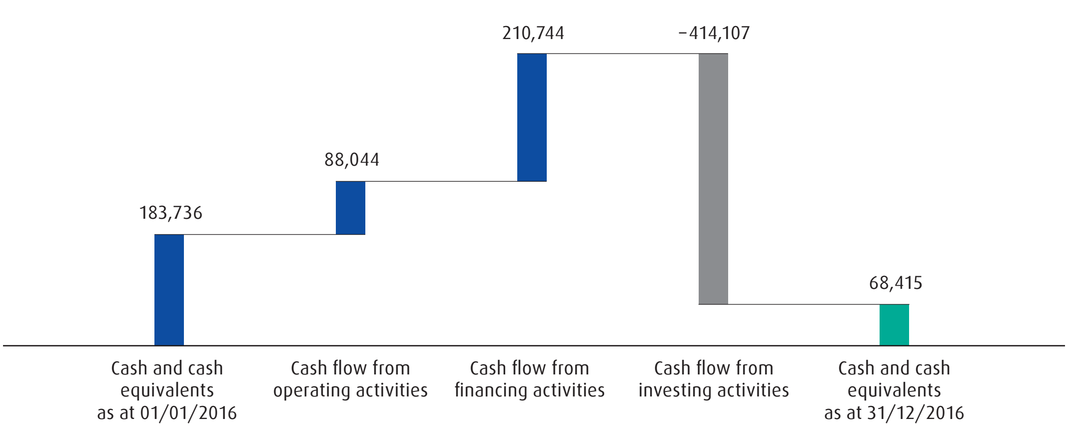
Compared to the previous year, the proceeds from the disposal of investment property decreased by EUR k 10,800 to EUR k 31,976.

The higher cash flow from financing activities is due to the EUR k 245,933 increase in loans compared to the previous period. The payment of a dividend of EUR k 48,551 to the shareholders compared to EUR k 15,236 in the previous year had the opposite effect, as did the capital increase of EUR k 100,724 carried out in 2015.

Overall, due to the aforementioned cash flows in 2016, the cash and cash equivalents decreased by EUR k 115,321 to EUR k 68,415:

Development of cash and cash equivalents

in EUR k



The cash and cash equivalents consisted entirely of liquid funds. In the reporting year, the liquidity of TLG IMMOBILIEN was secure at all times.

2.3.3 Net assets

The following overview summarises the asset and capital structure. Liabilities and receivables due in more than one year have all been categorised as long term.

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property/advance payments	2,215,321	1,753,746	461,575	26.3
Deferred tax assets	2,652	0	2,652	0
Other non-current assets	18,067	20,556	−2,489	−12.1
Financial assets	4,800	2,535	2,265	89.3
Cash and cash equivalents	68,415	183,736	−115,321	−62.8
Other current assets	35,508	38,888	−3,380	−8.7
Total assets	**2,344,763**	**1,999,461**	**345,302**	**17.3**
Equity	1,009,503	967,874	41,629	4.3
Non-current liabilities	1,009,406	771,914	237,492	30.8
Deferred tax liabilities	217,713	185,867	31,846	21.9
Current liabilities	108,141	73,809	34,332	46.5
Total equity and liabilities	**2,344,763**	**1,999,461**	**345,302**	**17.3**

At EUR k 2,215,321, the asset side is dominated by investment property as well as advance payments made towards them. Compared to the previous year, the proportion of investment property in the total assets increased from 88% to 94%.

The development of investment property is the result of fair value adjustments (EUR k 39,859), acquisitions (EUR k 442,998), the capitalisation of construction activities (EUR k 18,543) and reclassifications as assets held for sale (EUR k 28,857). Reclassifications from property, plant and equipment (EUR k 3,211) also had an effect.

Cash and cash equivalents decreased by EUR k 115,321 to EUR k 68,415 in the reporting period, due primarily to property acquisitions.

The equity of the Group was EUR k 1,009,503, which represents an increase of EUR k 41,629 compared to the previous year, whereas the liabilities of the Group increased by a total of EUR k 303,670. The increase in equity is due to the net income of EUR k 94,109, whereas the payment of a dividend of EUR k 48,551 had the opposite effect.

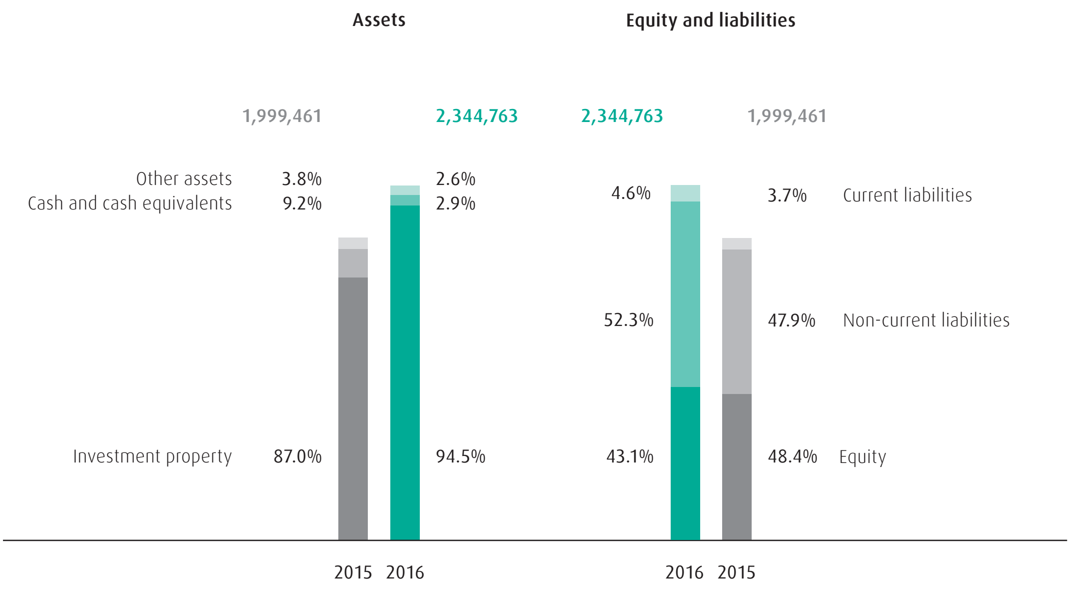
in EUR k	31/12/2016	31/12/2015	Change	Change in %
Equity	1,009,503	967,874	41,629	4.3
Total equity and liabilities	2,344,763	1,999,461	345,302	17.3
Equity ratio in %	**43.1**	**48.4**	**−5.3 pp**	

Compared to the previous year, the equity ratio decreased by 5.3 percentage points to 43.1%, due primarily to the increase in loans.

Non-current liabilities, including deferred taxes, increased by EUR k 269,338 in the 2016 financial year and represent 92% of liabilities. This is essentially due to new long-term loans that were taken out in order to finance acquisitions. Current liabilities increased by EUR k 34,332 due to loans expiring in 2017 in particular. All liabilities to financial institutions are secured by mortgages.

Structure of the consolidated statement of financial position

in EUR k



2.3.4 FFO development

in EUR k	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015	Change	Change in %
Net income	**94,109**	**130,862**	**–36,753**	**–28.1**
Income taxes	34,507	38,311	–3,804	–9.9
EBT	128,616	169,173	–40,557	–24.0
Result from the disposal of investment property[1]	–6,103	–8,088	1,985	–24.5
Result from the disposal of real estate inventories	–10	–771	761	–98.7
Result from the remeasurement of investment property	–39,860	–87,856	47,996	–54.6
Gain/loss from the remeasurement of derivative financial instruments	–299	848	–1,147	n/a
Other effects[2]	892	–1,184	2,076	n/a
FFO before taxes	83,236	72,122	11,114	15.4
Income taxes	–34,507	–38,311	3,804	–9.9
Deferred taxes	30,098	34,583	–4,485	–13.0
Correction of tax effects from transaction costs and previous period effects	–1,950	–4,407	2,457	–55.8
FFO after taxes	**76,877**	**63,987**	**12,890**	**20.1**
Average number of shares on issue (in thousands)[3]	67,432	62,041		
FFO per share in EUR	**1.14**	**1.03**	**0.11**	**10.7**

[1] Including the costs resulting from the EUR k 278 adjustment of the income from the disposal of Grimma business park, held as an investment; disclosed in the statement of comprehensive income in other operating income
[2] The other effects include
(a) the depreciation of IAS 16 property (owner-occupied property) (EUR k 145; previous year EUR k 185),
(b) income from the service contract with TAG Wohnen (EUR k 0; previous year EUR k 30),
(c) personnel restructuring expenses (EUR k 477; previous year EUR k 670),
(d) share-based payments (EUR k 0; previous year EUR k 957),
(e) the reversal of provisions for reclaimed subsidies (EUR k 404; previous year EUR k 1,317),
(f) income from insurance compensation and the payment of damages to the notary (EUR k 0; previous year EUR k 950),
(g) the reversal of the provision for liabilities arising from purchase agreements (EUR k 283; previous year EUR k 0),
(h) transaction costs (EUR k 957; previous year EUR k 0),
(i) the reversal of provisions for construction costs (EUR k 0; previous year EUR k 700).
[3] Total number of shares as at 31 December 2015: 67.4 m, as at 31 December 2016: 67.4 m. The average weighted number of shares was 62.0 m in 2015 and 67.4 m in 2016.

Funds from operations (FFO) are a key performance indicator for the TLG IMMOBILIEN Group.

FFO is a key indicator used by companies with properties in the real estate sector to judge their long-term profitability. The figure is essentially the result of the net income for the period adjusted for the result from disposals, property measurement and the measurement of derivatives, deferred taxes and extraordinary items.

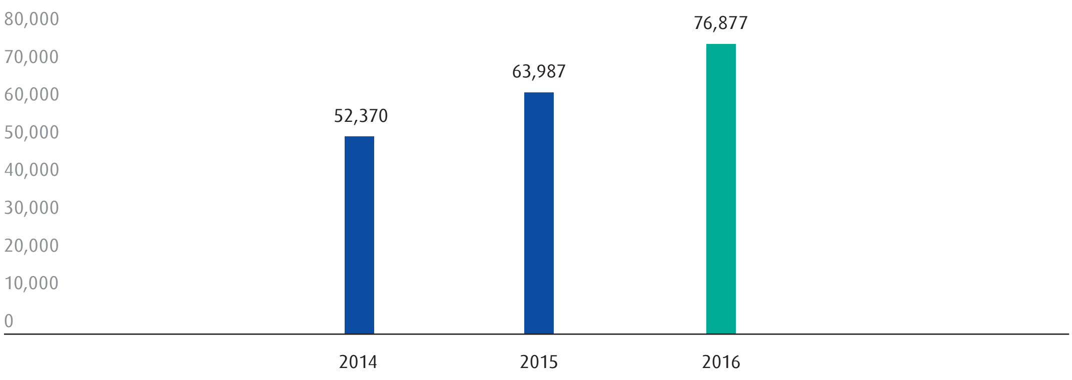
In 2016, FFO was EUR k 76,877, which represents an increase of 20.1% or EUR k 12,890 compared to 2015. FFO per share was EUR 1.14 and therefore higher than in the same period in the previous year in spite of the increased number of shares resulting from the capital increase in November 2015.

In the 2015 annual report, TLG IMMOBILIEN predicted that its FFO in 2016 would be between EUR 71 m and

EUR 73 m. This forecast was revised upwards to between EUR 74 m and EUR 76 m in the half-yearly financial report 2016. The FFO forecast for 2016 was therefore surpassed slightly. This was due to slightly higher net operating income from letting activities than expected. FFO has developed as follows compared to the last three years:

Funds from Operations (FFO)

in EUR k



The considerable increase in FFO compared to the same period in the previous year is due primarily to the higher rental income following successful acquisitions as well as successful reductions in other operating expenses.

FFO is an important indicator for the performance of the company going forward.

Net Loan to Value (Net LTV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Investment property (IAS 40)	2,215,228	1,739,474	475,754	27.4
Advance payments on investment property (IAS 40)	93	14,272	−14,179	−99.3
Owner-occupied property (IAS 16)	6,109	9,344	−3,235	−34.6
Non-current assets classified as held for sale (IFRS 5)	19,174	15,912	3,262	20.5
Inventories (IAS 2)	1,103	1,104	−1	−0.1
Real estate	**2,241,708**	**1,780,106**	**461,602**	**25.9**
Liabilities to financial institutions	1,040,412	782,688	257,724	32.9
Cash and cash equivalents	68,415	183,736	−115,321	−62.8
Net debt	**971,997**	**598,952**	**373,045**	**62.3**
Net Loan to Value (Net LTV) in %	**43.4**	**33.6**	**9.8 pp**	

As a ratio between net debt and real estate assets, the Net LTV is a key performance indicator for the company. FFO totalled 43.4% in the Group as at the reporting date. The long-term ceiling of 45% for the Net LTV announced most recently in the quarterly report of 30 September 2016 was adhered to. The main reason for the increase of 9.8 percentage points was the increase in new loans for acquired properties.

EPRA Net Asset Value (EPRA NAV)

in EUR k	31/12/2016	31/12/2015	Change	Change in %
Equity [1]	1,009,503	965,065	44,438	4.6
Fair value adjustment of fixed assets (IAS 16)	5,327	5,572	−245	−4.4
Fair value adjustment of real estate inventories (IAS 2)	1,443	333	1,110	333.3
Fair value of derivative financial instruments	18,089	15,921	2,168	13.6
Deferred tax assets	−2,652	0	−2,652	0
Deferred tax liabilities	217,713	185,867	31,846	17.1
Goodwill	−1,164	−1,164	0	0.0
EPRA Net Asset Value (EPRA NAV)	**1,248,259**	**1,171,594**	**76,665**	**6.5**
Number of shares (in thousands)	67,432	67,432		
EPRA NAV per share (in EUR)	18.51	17.37		

[1] Adjusted for non-controlling interests in 2015

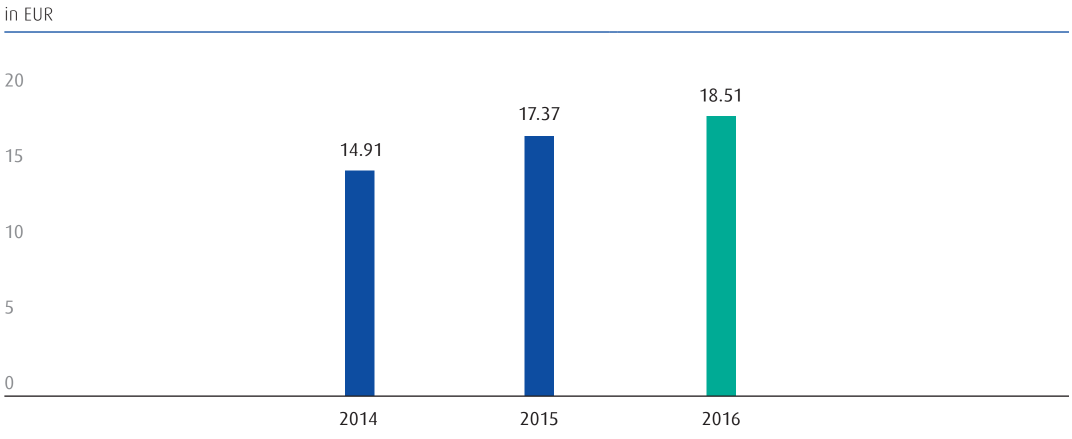
EPRA Net Asset Value (EPRA NAV) is another key performance indicator of TLG IMMOBILIEN. It discloses a net asset value on a consistent basis that can be compared with other companies.

EPRA NAV was EUR k 1,248,259 at the end of 2016, which corresponds to an EPRA NAV per share of EUR 18.51. The EPRA NAV increased by EUR k 76,665 compared to 31 December 2015.

The increase was predominantly the result of the increase in equity due in particular to the net income of EUR k 93,998, which was influenced by the positive course of business as well as the positive change in the value of the property portfolio (EUR k 39,860). The payment of a dividend of EUR k 48,551 to the shareholders had the opposite effect. The expected slightly positive development of the EPRA NAV was therefore surpassed.

The EPRA NAV per share developed as follows compared to the last three years:

EPRA NAV per share



2.3.5 Non-financial performance indicators

TLG IMMOBILIEN does not directly use non-financial performance indicators to manage the company. However, the management is aware that the satisfaction of the company's staff and clients as well as its good reputation as a reliable partner in the real estate sector is extremely important for long-term success in the market.

As at 31 December 2016, TLG IMMOBILIEN had 111 employees (previous year 122), not including trainees or inactive contracts. The reduction in the number of staff is primarily due to the restructuring of the company. The average length of service at TLG IMMOBILIEN is 13 years.

As a modern, attractive company with a clear growth strategy, it is the stated objective of the company to qualitatively and quantitatively strengthen its team by recruiting specific personnel. In 2016, the company recruited 14 new members of staff.

The further professional and personal development of staff is a key component of personnel management. In order to expand the knowledge and skills of its personnel, the company promotes advanced training courses and occupational studies, and regularly organises specialised workshops designed to refresh its employees' knowledge.

TLG IMMOBILIEN AG also trains its staff for its own requirements. In the future, the company will continue to provide cooperative education in business administration, essentially with a focus on the real estate sector.

In addition to a corporate culture that favours rapid decision-making processes, the company provides optimal working conditions at modern locations with flexible working hours and attractive benefits, such as the job ticket, food allowance and accident insurance.

In 2016, TLG IMMOBILIEN AG carried out an employee survey for the second time in a row. The outstanding level of participation signals the interest of the staff in continuing to help shape the development of TLG IMMOBILIEN AG. The majority of its employees see TLG as an extremely attractive employer and are proud of their company. Almost all employees are aware of how they are contributing to the overall success of the company.

TLG IMMO BILIEN traditionally maintains good long-term relationships with its tenants. This is reflected in long-term rental agreements with stable rental income. Thanks to the branches of TLG IMMOBILIEN with offices in Berlin, Dresden, Erfurt, Leipzig and Rostock, the company has outstanding regional networks. A location in Frankfurt am Main is in the pipeline. The staff in these branches have solid market experience and close relations with a number of private and institutional market participants. This allows TLG IMMOBILIEN to present itself as a reliable long-term partner to commercial tenants, investors and local authorities.

TLG IMMOBILIEN is aware of the political significance of the real estate sector. It is therefore an active member of the German Property Federation (ZIA), Germany's leading property federation and the only one to be represented in the Federation of German Industry (BDI). Additionally, Niclas Karoff is the spokesperson for the regional board of the ZIA in eastern Germany.

TLG IMMOBILIEN remains a member of the EPRA European Public Real Estate Association in order to support the promotion, development and representation of the European public real estate sector. Peter Finkbeiner is a member of the advisory board of this European association.

Additionally, TLG IMMOBILIEN has been a member of the German Corporate Governance Initiative (Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V.) since 2016. Its objective is to boost professionalism with regard to transparency and the quality of corporate development and regulation.

3. REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

3.1. RISK AND OPPORTUNITY REPORT

3.1.1 Risk management system

TLG IMMOBILIEN is exposed to constantly changing general economic, technical, political, legal and societal conditions that could impede its achievement of its targets or the implementation of its long-term strategies. However, business opportunities can also arise. TLG IMMOBILIEN AG has a risk management system in place to enable early detection, monitoring and assessment of the risks typical for the industry. This meets the legal requirements (AktG, KonTraG) as well as the requirements of the Corporate Governance Code.

This system continuously assesses and monitors risks in order to counter ominous developments before they occur. The risk management system monitors and assesses the risks in processes, and the internal auditors monitor and assess the general risks. Suitable adjustments are made when the general situation changes. The auditor also audits the early risk detection system together with the annual financial statements in accordance with § 317 (4) HGB.

There were no significant changes in the organisation and processes of the risk management system in 2016.

As an integral component of all corporate processes, the risk management system follows an iterative cycle with the following processes:

- Risk identification
- Risk analysis and quantification
- Risk communication
- Risk management
- Risk control

Risk identification

Risks are identified at the locations of TLG IMMOBILIEN using the "bottom up" method. The risk situation at the locations, in the various departments and to which TLG IMMOBILIEN as a whole is exposed is assessed, discussed and summarised by risk management and the risk officers.

Using the summarised information provided by the risk officers, the risk management of TLG IMMOBILIEN then compiles an inventory of risk by grouping the individual risks into risk types.

In terms of organisation and human resources, the risk management is based at the main offices of TLG IMMOBILIEN. However, the various locations, departments and subsidiaries are also involved due to the expertise required to deal with the major risk factors on a daily basis.

Besides the risk officers, all employees of the company can and are obliged to immediately submit an urgent risk report – together with substantial proposed measures – to the risk managers and Management Board if they should become aware of any extraordinary circumstances.

Risk analysis and quantification

All risks were assessed on a quarterly basis, with a risk horizon of twelve months and on the basis of the potential loss and probability of occurrence. The probability of occurrence was quantified as follows:

- Negligible: 0 to 10%
- Low: >10 to 25%
- Medium: >25 to 50%
- High: >50%

The potential losses were categorised as follows:

- Negligible: up to EUR 0.3 m
- Low: >EUR 0.3 m to EUR 1.0 m
- Medium: >EUR 1.0 m to EUR 5.0 m
- High: >EUR 5.0 m to EUR 10.0 m

The reference values for the estimation of each loss were derived from the business plan.

The loss categories and probabilities of occurrence produce a 16-field matrix. This matrix converts the analysis into a specific amount of damage, i.e. the value at risk. The value at risk of TLG IMMOBILIEN is calculated by the risk management by aggregating the various risk types.

The changes in the aggregate total risk of TLG IMMOBILIEN (the value at risk) are measured in line with IFRS in the equity of the TLG IMMOBILIEN Group, on a quarterly basis, relative to the last quarterly or annual financial statements. Covenant agreements, which are a component of many loan agreements of TLG IMMOBILIEN, are taken into consideration. These agreements normally set out a minimum equity ratio which the company must maintain.

The aggregate value at risk was always lower than its reference value in the financial year. The existence of the company was not in jeopardy during the financial year.

Risk communication

Besides an annual risk report on the development of each risk in the financial year ended, the Management Board of TLG IMMOBILIEN receives quarterly reports on the risk situation of the company. These reports cover all risk types. Any urgent risk reports that were filed are brought to the attention of the Management Board immediately and documented in the monthly control report.

The quarterly report contains information on the aggregate value at risk as well as significant risks. “Significant risks” include risks with medium or high potential losses and probabilities of occurrence.

Risk management

Measures designed to avoid, prepare for, limit, reduce, pass on or compensate for risks are an active component of the risk management system.

The conception of risk-reducing measures is an important component of the risk management system of TLG IMMOBILIEN. These measures and their degree of success are documented.

Risk management

The plausibility of changes to the estimated risks is examined by the risk management. On an annual basis, the central risk management checks the suitability of the existing risk management system for the business model of TLG IMMOBILIEN. If necessary, conceptual changes and developments take place.

The internal auditors ensure that the documentation, assessment and reporting processes of the risk management system are effective and in order. If any process should prove to be unsatisfactory, recommendations are made on how to proceed.

A scheduled audit of the risk management system was carried out in the 2016 reporting year.

3.1.2 Risk report and individual risks

The business activity of TLG IMMOBILIEN has intrinsic risks of a general economic nature as well as risks specific to the real estate sector. TLG IMMOBILIEN has no control over the risks of economic fluctuations or the risks of the capital and real estate markets. These are dependent on a range of factors such as interest rates, inflation, the general legal situation, rents and changes in demand in the transaction market. This can result in far-reaching effects on, among other aspects, property values, the letting situation, transaction volumes and liquidity.

In the following, individual risks will be described as a part of the risk management system which can have significant influence on the net assets, financial position and results of operations of the Group. The risks have been separated into property-specific and company-specific risks.

Property-specific risks

Marketing risk

Besides the efficient operational management and development of the property portfolio, active portfolio management entails the expansion of the portfolio through attractive acquisitions and the disposal of properties that no longer fit in with the company's strategy. Disposals make a significant contribution to the optimisation of the company's financial and portfolio structures. A marketing risk arises if planned property disposals cannot be realised. The risk manifests itself in deviations from expected income from disposals, e.g. due to a failure to conclude purchase agreements resulting from changes in the levels of supply and demand. If a disposal cannot be realised, the capital remains tied down and cannot be released for further growth, which can affect the liquidity of the company as well as its net assets, financial position and results of operations. To avoid or reduce this risk, the Group carries out real estate transactions using standard general process steps. These include the removal of obstacles preventing sales, the procurement of permits and the identification of contaminated sites and pollution. The transaction teams have at their disposal standard contracts to use as a basis for purchase contract negotiations. None of the disposals scheduled for 2016 had to be postponed by any significant period of time in the financial year. Additionally, a large-scale purchase agreement that was planned for 2015 but not realised was concluded successfully in the reporting year. As a result, the potential loss and probability of occurrence of the marketing risk have been downgraded from high in the previous year to negligible as at the reporting date.

Bad debt from sales and leasing

TLG IMMOBILIEN endeavours to minimise the risk of bad debt from sales and leasing by carefully selecting its contractual partners. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used when necessary. Structured claims management is used to counter potential bad debt.

The bad debt risk of receivables from sales was rated as having a high potential loss at the end of the reporting year, although its probability of occurrence remained negligible due to the lack of contractual rescissions or insolvency on the part of purchasers so far.

TLG IMMOBILIEN has a high-quality portfolio of properties and generates stable cash flows from rental income. Significant impairment of the cash flows, and thus also the financial position and results of operations, can arise from a loss of payments from anchor tenants or insolvency on their part. The risk of bad debt from operational management was once again rated as having a medium potential loss and a low probability of occurrence due to the positive track record of receivables over the course of the financial year. The development of receivables is evaluated on a monthly basis, its context is analysed and bad debt recovery measures are implemented, such as our employees contacting tenants directly.

Vacancy risk
The vacancy risk is when a property cannot be leased or sub-leased at a reasonable price or at all. Additionally, the risk can result from tenants reducing the scope of rent or being able to effect reductions in the rent for economic reasons. Such a development can have a negative effect on the letting situation and consequently on the planned development of the income from letting activities as well as the funds from operations. TLG IMMOBILIEN minimises this risk by closely monitoring the market with extensive analyses of renting statistics (the preparation of market reports), continuously monitoring expiring rental agreements, regularly consulting real estate brokers, entering into long-term rental agreements and maintaining a presence on various media. The avoidance and reduction of risk also involves the timely identification and fulfilment of tenant requirements. In collaboration with tenants, areas of buildings are therefore converted regularly as part of new rental agreements or rental agreement extensions so as to meet the tenants' requirements. As all but one of the properties in the portfolio of TLG IMMOBILIEN are managed by employees of the Group, the company is in close contact with its tenants. Risk can also be reduced by the selective disposal of properties that no longer fit in with the strategy of TLG IMMOBILIEN. For this reason and as in the previous year, both the potential loss and probability of occurrence have been categorised as low as at the reporting date.

Environment and contaminated sites
The risk of contaminated sites and the environmental risk are of significance in terms of the potential loss. For example, properties which prove to have contaminated sites – which were previously unknown – will lead to unexpected additional expenses in connection with removing any danger to public order and safety in line with the current laws and regulations. This also includes the risk under § 4 (6) of the German Federal Soil Protection Act (BBodSchG). Under the Federal Soil Protection Act, as the previous owner of a plot of land TLG IMMOBILIEN is obliged to redevelop the land if ownership thereof was transferred after 1 March 1999 and if TLG IMMOBILIEN was aware of harmful soil changes or contamination (eternal liability). This is also the case if the current owner cannot be called on to redevelop the land due to a lack of assets. In general, there are public declarations of exemption for environmental contamination of land in the portfolio of TLG IMMOBILIEN caused before 1 July 1990; therefore, the company is not exposed to any significant risks. Environmental contamination caused after 1 July 1990 has either been factored into the measurement of the property (thus reducing its value) or is not considered significant. If an environmental or pollution risk should arise, this could potentially have a significant influence on the net assets, financial position and results of operations of the company. The potential loss of the environmental risk and the risk of contaminated sites is considered extremely high, yet the probability of occurrence is considered negligible.

Operational management

Operational management involves the risks of non-recoverable operating costs, neglected maintenance, subsidies and failure to fulfil the legal duty to maintain safety in the property.

By continuously analysing changes in vacancy rates and contractual conditions with suppliers and service providers, TLG IMMOBILIEN strives to counter the potential risk of operating costs. Both the potential loss from corrections effected by objections and the probability of occurrence are still considered low. However, inaccuracies and errors in the annual utility invoices could occur, which could influence the satisfaction of the tenants and the results of operations of the company.

The risk that necessary maintenance measures cannot be completed on time, thus resulting in unforeseen disruptions to technical or structural equipment, is always a factor. If defects are identified late or not at all or if the need for maintenance is inaccurately gauged, this can result in higher expenses than expected, which will affect the results of operations of the company. To minimise this risk, the properties are regularly inspected by employees or technicians who can promptly identify any defects and hold a regular dialogue with each tenant. As at the reporting date, the potential loss of this risk was still negligible and its probability of occurrence was medium.

The regular inspections also allow TLG IMMOBILIEN to fulfil its duty to maintain safety on the premises. Given the constant inspections, prompt service and repairs and the safety inspections, the potential loss is considered negligible. The probability of occurrence is rated as medium.

The opportunity to claim subsidies (e.g. investment subsidies and grants) occasionally arises as part of the real estate business. If a subsidy is accepted but its conditions are not met, repayment claims can be filed against the recipient of a subsidy in subsequent years. Therefore, TLG IMMOBILIEN regularly checks to ensure that it is meeting the conditions of ongoing subsidy agreements. If such a risk arises, it can have a negative impact on the net assets, financial position and results of operations of the company. As at 31 December 2016, this risk was considered to have a low potential loss and a medium probability of occurrence.

Investments

TLG IMMOBILIEN pursues an investment strategy which continuously optimises and increases the value of the property portfolio through attractive acquisitions, modernisation measures and, to a certain extent, new builds. Such investment activities can involve risks of overspending, delayed completion, structural defects and the loss of construction crew contractors. TLG IMMOBILIEN will counter these risks by continuously checking the creditworthiness and reliability of construction companies and business partners and by hedging with guarantees. Preceding invitations to tender and negotiations on contractual conditions and prices are an important basis. The implementation entails extensive project management, regular inspections on site, consistent follow-up management and strict deadline management. Acquisitions are subject to a predefined framework of strategic acquisition criteria and operative implementation requirements, for example in the form of due diligence processes.

If insufficient investments are made, this can have a negative impact on the net assets, financial position and results of operations of the company as well as on its growth strategy. The probability of occurrence is considered low and the potential loss is considered medium.

Property measurement

The fair value of the property portfolio is subject to fluctuations caused by external and property-specific factors. Key external factors with significant influence over measurement gains and losses are the market rent and interest rates, as well as the general demand for properties as an asset class. Property-specific factors are primarily the rental situation and the condition of the property. Even a small deviation from the previous market value of the property portfolio represents a high potential loss and can have a considerable impact on the statement of comprehensive income and significantly impair the net assets of the company.

The properties of the Group are regularly and systematically evaluated by independent external experts in order that problematic developments can be identified as quickly as possible. In order to reduce the measurement risk, TLG IMMOBILIEN also carries out tenant-oriented property management, performs necessary renovations and other technical measures for tenants and implements consistent portfolio optimisation in line with its strategy. In the 2016 financial year, the fair value calculation found no indications of a significant decrease in the value of the property portfolio.

Due to the currently good letting situation and the persistently favourable market conditions, the probability of occurrence of the property measurement risk remains medium.

Company-specific risks

Financing

The growth strategy of TLG IMMOBILIEN will require additional loans in future. The conditions and the availability of financing depend significantly on the changes in interest rates and the general banking and market environments. Thus, for new loans and refinancing, higher financing costs may arise for the company through rising interest rates. Likewise, if the markets in which the banks operate begin to slow down, this could make banks more cautious about providing finance or cause them to increase their rates. These changes in the general conditions could negatively affect the financial position and profit or loss of the company.

Essentially, TLG IMMOBILIEN hedges against the interest rate risk for existing bank loans by means of interest hedges. The probability of occurrence was rated high as at 31 December 2016 as in the previous year, yet the potential loss was downgraded from medium as at 31 December 2015 to negligible due to the decrease in the interest rates on which the risk assessment was based as well as more favourable rates of finance.

Some financing contracts include so-called financial covenants, whereby the bank has an extraordinary right of termination if they are not adhered to. The company covers the risk of a broken covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. For example, a broken covenant can normally be remedied by means of unscheduled repayments. No agreed covenants were broken in 2016.

Due to the moderate debt ratio with regard to the fair value of the properties, TLG IMMOBILIEN continues to consider itself fully eligible for financing, even for more restrictive loan conditions.

Liquidity

The management of the Group pays special attention to liquidity in order that TLG IMMOBILIEN AG is always able to meet its payment obligations on time. In order to analyse future changes in liquidity, a liquidity forecast for at least six months is created for the expected cash flows and updated on a weekly basis. In the reporting year, the liquidity of TLG IMMOBILIEN was secure at all times. However, future liquidity shortages – e.g. due to unfavourable developments of macroeconomic factors – cannot be completely ruled out, which could result in negative effects on the financial position and results of operations of the company. In the context of the planned volume of transactions in future, the probability of occurrence of the risk was revised upwards from medium to high, yet its potential loss remained low.

Tax risk

The tax risk is the danger that unforeseen matters or incorrect tax documents affect the tax burden and thus the results and liquidity of the company. This applies to turnover and income tax in particular and includes the potential impact of the risk of changes to tax laws. During past audits, the financial authorities have never detected any omitted matters which could increase the tax burden of the company. The risk of significant changes to tax laws is considered low. The utilisation of a tax option requires that TLG IMMOBILIEN meet certain legal requirements in future periods as well so as to profit from the positive tax effects. If these legal requirements are not met, the potential loss of the tax risk was still considered high at the end of the financial year, although its probability of occurrence remains negligible.

Legislative risk

The business activities of TLG IMMOBILIEN are affected by changes in the legal framework and to regulations. Fundamental changes in the legal framework, e.g. in landlord and tenant legislation, can lead to financial risks or increased expenses and therefore affect the financial position and results of operations of the company. These changes could negatively affect the image, the business activities and the financial position and results of operations of the Group. Because there is no recognisable concrete and quantifiable risk from impending and/or expected legislative changes or regulations, this risk was not changed from the previous year and was classified as negligible and with a medium damage amount.

Personnel

Competent and motivated employees in an attractive working environment are essential to the success of TLG IMMOBILIEN. TLG IMMOBILIEN strengthens its attractiveness as an employer and counters any potential risk from insufficient personnel (e.g. due to fluctuations) with measures such as performance and potential analyses to illustrate development perspectives, a performance-based remuneration system and additional benefits, as well as professional development opportunities. Another risk is that additional direct or indirect personnel expenses occur, in particular if employees do not meet expectations in terms of quality or quantity or are absent for extended periods due to illness. If skilled, committed and motivated employees and managers cannot be found, trained and retained, this can have a negative effect on the development of the company. The potential loss and probability of occurrence of the personnel risk remain negligible.

Costs of litigation, deadlines

TLG IMMOBILIEN generally faces the risk that the costs of legal disputes, legal advice, contract reviews and comparisons will increase more than expected. Additionally, it faces the risk that deadlines are not adhered to. Provisions have been established against risks from ongoing litigation. There are no foreseeable disputes in the future with a significant value in dispute. Furthermore, databases are documented in a litigation database and in a separate calendar. These deadlines are regularly monitored.

The damage amount and probability of occurrence of both risks remains unchanged and classified as negligible.

Press and image

The business activities of TLG IMMOBILIEN can be impeded by negative representations in the media to such an extent that the revenue of the company is jeopardised. This can damage the TLG IMMOBILIEN brand and lower the price of its shares. The public image of TLG IMMOBILIEN is to be strengthened and improved predominantly by means of media communication, the transparency of property transactions on the capital market and increased leasing. Due to the positive image of TLG IMMOBILIEN on the capital market and the careful preparation of documents due to be published, the probability of damage to the image of the company continues to be considered negligible, although the potential loss is high.

Data and IT risks, fire/burglary/natural disasters

All aspects of business require the careful use of data. As data are entered into a variety of IT systems, the data can be falsified, deleted or wrongly interpreted due to application errors, the failure to follow bookkeeping and/or work instructions, interference by third parties or external influences. This can lead to massive disruptions in the course of business and cause unfavourable conclusions to be drawn and decisions to be made. Likewise, the data in databases are at risk of falling into the wrong hands and being misused to the detriment of TLG IMMOBILIEN. This can lead to negative effects on the business activities of the company. The risk concerns both internal confidentiality and protection against external third parties. The risk therefore concerns the entirety of the data protection regulations, both technical and organisational, as well as the general misuse of data.

In order to reduce this risk, access privileges are regularly inspected and regular plausibility checks are carried out. The company also has detailed procedures and guidelines. The IT system used for accounting purposes is audited by the auditor on an annual basis as part of the audit of the consolidated financial statements and annual financial statements. As in the previous year, the data quality risk has been rated as having a medium potential loss and a negligible probability of occurrence.

Both aspects of the data protection risk are still considered negligible as an information security management system (ISMS) is in place. The preservation of confidentiality is a major component of this system. Other data protection measures such as secure passwords and a structured access privilege assignment and revocation process are in place as part of the ISMS and are applied consistently.

Another risk is that natural disasters (e.g. floods), fire or burglars could cause structural damage or disruptions and damage, destroy or steal office equipment, resources or documents – and the company is not sufficiently covered by its insurance. In order to counter this risk, the company actively implements fire and theft prevention measures at all business locations by means of secure access, alarms, regular data backups and security guards. As in the previous year, the risk is considered negligible as the company normally has sufficient insurance cover.

Internal and external offences

Internal and external offences lead directly to financial damage and/or losses through image damage. The damage ranges from damage caused by internal manipulation (e.g. fraud, embezzlement, theft of cash) to external cases of fraud such as the manipulation of sales, invitations to tender and the awarding of contracts. This also includes offences in connection with the company's position on the market (insider trading). Due to the four-eye principle which is applied to all transactions and the company's internal approval and control system, this risk is considered negligible. Employees are regularly trained in issues of compliance.

3.1.3 Internal control and risk management system for the accounting process

The Management Board of TLG IMMOBILIEN is responsible for the proper preparation of the consolidated financial statements and the annual financial statements. To ensure their proper preparation, an accounting-related internal controlling and risk management system is required. The internal control and risk management system is designed to ensure that business events are correctly and completely accounted for and disclosed in accordance with legal requirements, generally accepted accounting principles, the International Financial Reporting Standards (IFRS) as well as internal guidelines, in order to give the readers of the consolidated financial statements and annual financial statements an accurate representation of the company. TLG IMMOBILIEN set up an internal control system under observance of decisive legal guidelines and standards typical for the industry and a company of its size. The system comprises a variety of control mechanisms and is an essential component of the business processes. The control mechanisms are subdivided into integrated mechanisms and downstream controls. The integrated mechanisms include, for example, technical controls secured by the system, internal guidelines, the dual-control principle for high-risk business processes and the documentation of all business transactions. Moreover, regular downstream checks in the form of, among others, monthly internal reporting, analysis of significant items in the statement of profit or loss, the statement of financial position and budget checks are carried out.

All of the responsibilities as part of the accounting process are clearly defined. The accounting department is an expert partner for specialised issues and complex accounting matters, and it consults external expert advisers on individual issues if necessary. The four-eye principle – which features a clear separation of the roles of approval and execution – is a central element of the accounting process. The accounting process is supported by IT software which controls the privileges of the users in accordance with the requirements of the internal guidelines. The Group has central accounting and central controlling. The Group's holistic accounting, account assignment and valuation guidelines are inspected and updated regularly.

The Group auditing department is an independent organisational unit and not involved in the operative business activities. It monitors the compliance of processes and the effectiveness of the internal control and risk management system. This includes accounting processes and the operative business activities being examined in topic-oriented checks.

The auditor of the financial statements audits the risk management system and internal control system as part of the audit of the consolidated financial statements and annual financial statements. Amongst other things, the Supervisory Board and its audit committee are involved with the accounting process, the internal control system and the risk management system. They use the results of the auditor of the annual financial statements and the auditing department as a basis for monitoring the effectiveness of the internal control and risk management system, especially with regard to the accounting process.

3.1.4 Risk management in relation to the use of financial instruments

Dealing with risks as regards the use of financial instruments is regulated by guidelines. In accordance with this guideline, derivative financial instruments are used exclusively for hedging loans with variable interest rates and not for trading purposes. There is generally an economic hedging relationship between the underlying transaction and the hedging transaction. If possible, a hedge is recognised in the statement of financial position.

For the purpose of risk monitoring and limitation, the market values of all interest hedges are assessed on a monthly basis. The risk of bad debt on the part of the banks with which the interest rate hedges were created is considered low, as all of the banks have a sufficiently high credit standing.

As it is safely hedged against the variable cash flows, TLG IMMOBILIEN is exposed to a negligible liquidity risk.

3.1.5 General risk situation

The Management Board of TLG IMMOBILIEN considers the aggregate value at risk over the course of the 2016 financial year as typical. Compared to the previous year, the risk situation has remained stable. Suitable preventive and, if necessary, countermeasures were taken whenever risks with a medium or high potential loss and probability of occurrence were identified. None of the risks described above threaten the portfolios of the individual companies or the overall Group, either individually or in their entirety.

3.1.6 Opportunity report

TLG IMMOBILIEN has a strong, highly diversified portfolio on the property market in eastern Germany and now also in areas of western Germany, primarily due to the expertise of its employees, their years of experience, their sound know-how and their constant focus on the customer. As an active portfolio manager, the company has an excellent network in the property market alongside decades of market experience, which enables it to assess the market with a high degree of reliability. This way, TLG IMMOBILIEN is able to quickly identify when third parties are potentially planning transactions, which can serve to improve its own chances of making an acquisition.

Due to the persistently low interest rates, new financing and refinancing opportunities alike are available at favourable rates. When we acquire properties, new financial instruments will allow us to react with flexibility in line with our growth strategy.

Besides these activities, the consistent testing and improvement of internal processes and structures will both increase opportunities and save costs.

With regard to renting, the company's many years of regional market expertise can open up new opportunities to acquire vacant space in future. The long-term rental agreements in the portfolio of TLG IMMOBILIEN have an average remaining term of approx. 6.1 years. Increasing consumer prices could have a positive effect on rental income as index adjustments are normally contractual components of the rental agreements.

Furthermore, some land could potentially be developed with building expansions or new buildings to add more space, which would increase the net operating income from letting activities of TLG IMMOBILIEN. Likewise, specific modernisation measures and renovations for tenants in the portfolio are improving customer satisfaction and tying tenants to properties for longer.

3.2 FORECAST REPORT

The forecasts in the forecast report are based on expectations. The development of TLG IMMOBILIEN depends on a number of factors, some of which cannot be controlled by the company. The forecasts of the forecast report represent the current expectations of the company. These forecasts are therefore subject to risk and uncertainty. The actual performance of TLG IMMOBILIEN may vary, either positively or negatively.

3.2.1 General economic conditions and property markets

Overall economy

With regard to the economic developments in Germany and the resulting effects on the real estate investment market, it remains to be seen to what extent the changes in the foreign and monetary policies of the new government in the USA and the upcoming withdrawal of the UK from the EU will have an effect. The German government expects the GDP to grow by 1.4% in 2017 and by 1.6% in 2018, based on the fact that the global economy remains beset by difficulties and that many aspects of the impact of the Brexit vote remain unpredictable. Jones Lang LaSalle (JLL) expects the upward trend in prices in the real estate investment market to slow to 7% in 2017. Investors will be more focused on growth in rents and a realistic assessment of the potential for growth.

Office property market

JLL expects the building completion volume to be a little over 1 million sqm in 2017. In light of the slightly higher yet still moderate construction pipeline, JLL expects rents to remain under pressure and increases of 3% in the top segment in 2017. The average rents are also expected to increase further. Vacancy rates are expected to fall again by up to 0.3 percentage points.

Retail property market

According to Savills, demand for selling space in the retail segment is changing, which means that increasingly small volumes of space will be in demand in future. This is due to the ongoing structural upheaval in the retail segment and the transition of turnover from stationary shops to online retail. Locations with the highest passer-by frequencies and neighbourhood shopping centres in close proximity to residential areas will be highest in demand amongst retailers in future.

Hotel property market

Given the record high in the hotel property transaction market in 2016, the experts at BNP Paribas Real Estate are finding it increasingly difficult to draw up a forecast for 2017. Fundamentally, investor demand remains high, yet in spite of healthy levels of construction activity the supply is insufficient and the volume of transactions in 2016 was influenced by a number of major sales. Nevertheless, an annual transaction volume of at least EUR 4 bn should be achievable in 2017 as well.

3.2.2 Expected business developments

Assuming that the German economy and property markets on which TLG IMMOBILIEN is active remain stable or experience positive growth, the company expects its performance to remain positive.

Therefore, the company will continue to operatively manage its property portfolio with a view to generating value. Unless any major unforeseen events occur, the company expects the property-related expenses that are to be borne by the owner to develop in a similar way to rental income in 2016.

As an active portfolio manager, in 2017 TLG IMMOBILIEN plans to take advantage of the positive market environment and its strong position in its core markets to add new acquisitions that meet its quality and yield standards to its own property portfolio and dispose of non-strategic properties when the opportunities arise on the market.

The solid financing structure of the company and the historically low interest rates make it reasonable to expect TLG IMMOBILIEN to remain capable of obtaining debt at attractive rates in 2017. In 2017, there is little need to refinance; as a result, most debt obtained will be for the purposes of growth. TLG IMMOBILIEN intends to continue with its defensive approach to finance and expects a Net LTV of up to 45% in the long term (2016: 43.4%).

With consideration for the acquisitions that have been made so far, TLG IMMOBILIEN expects funds from operations of between EUR 84 m and EUR 86 m (2016: EUR 76.9 m) in the 2017 financial year. This will allow for the distribution of an attractive dividend to the shareholders. Potential acquisitions in 2017 might also increase FFO for 2017.

TLG IMMOBILIEN expects the EPRA Net Asset Value, which is mostly influenced by the value of the property portfolio, to increase slightly by the end of the 2017 financial year. This is contingent on the company not incurring any major unforeseen expenses.

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

The declaration on corporate compliance to be issued pursuant to § 289a and § 315 (5) HGB and the corporate governance report are available online at *http://ir.tlg.eu/corporategovernance*. Pursuant to § 317 (2) line 4 HGB, the disclosures under § 289a and § 315 (5) HGB are not included in the audit carried out by the auditor.

4.2 PROPORTION OF WOMEN

Following the entry into force of the German act on equal participation of women and men in executive positions in the private and the public sector on 1 May 2015, listed companies are obliged to set future targets for the proportion of women on their management and supervisory boards as well as on the two management levels below the management board, and to set implementation deadlines within which they intend to reach their target proportion of women (targets and implementation deadlines).

Therefore, under § 111 (5) AktG, the Supervisory Board must set the targets and implementation deadlines for the Management and Supervisory Boards of the Company. With regard to the maximum duration of the deadlines, the first deadline to be set may not extend beyond 30 June 2017.

In its meeting on 25 September 2015, the Supervisory Board decided the following:

The minimum proportion of women on the Supervisory Board of TLG IMMOBILIEN AG is 16.67%, and the proportion of women may not fall below this target before 30 June 2017.

Initially, the minimum proportion of women on the Management Board of TLG IMMOBILIEN AG shall remain at 0% for the implementation deadline ending on 30 June 2017. Both members of the Management Board are male.

In line with § 76 (4) AktG, the Management Board must set the targets and implementation deadlines for the proportion of women on the first and second management levels beneath the Management Board. With regard to the maximum duration of the deadlines, the first deadline to be set may not extend beyond 30 June 2017.

In its meeting on 30 September 2015, the Management Board decided the following:

In line with § 76 (4) AktG, the minimum proportion of women on the first management level below the Management Board is 11.11% and the minimum proportion of women on the second management level below the Management Board is 30%; neither may fall below this target before 30 June 2017.

4.3 REMUNERATION REPORT

The remuneration report explains the structure and the amount of remuneration allocated to the Management and Supervisory Boards. It complies with the statutory regulations and the recommendations of the German Corporate Governance Code.

4.3.1 Foreword

The Supervisory Board defines the total salary of each member of the Management Board and adopts the remuneration system for the Management Board and examines it regularly.

The remuneration system has not changed since 2014.

4.3.2. Management board remuneration system

The remuneration system factors in the joint and personal work of the members of the Management Board to ensure sustainable corporate success. The remuneration system is based on performance and success, in which regard long-term orientation, suitability and sustainability are key criteria.

The remuneration of the Management Board comprises a fixed remuneration component (base remuneration), a variable remuneration component with a short-term incentive (STI) and a variable remuneration component with a long-term incentive (LTI), which was provided for the first time in 2015.

The Supervisory Board set out the initial levels of the LTI for 2015 in its meeting on 29 April 2015 and for 2016 in its meeting on 29 March 2016.

in EUR k	Peter Finkbeiner	Niclas Karoff
Basic remuneration	300	300
Short-term variable remuneration (STI)	200	200
Long-term variable remuneration (LTI)	250	250
Total remuneration	**750**	**750**

Fixed remuneration component

The base remuneration is paid out to the members of the Management Board in twelve equal monthly instalments.

On top of the base remuneration, the members of the Management Board receive predefined additional benefits.[1] Furthermore, the company has taken out industrial accident insurance which pays benefits if a member of the Management Board should become ill or die (in which case the benefits are paid to the member’s surviving dependants), pension insurance and financial loss liability insurance (D&O insurance). Under the German Corporate Governance Code, the D&O insurance policy features a statutory deductible which, if a claim is filed, consists of 10% of the claim, up to 1.5 times the fixed annual remuneration of the member of the Management Board in question.

Short-term incentive

The achievement rate, which is determined by comparing the progress of the member of the Management Board after one year, is the basis of the calculation of the short-term incentive.

The annual targets are defined by means of a joint agreement on objectives for the members of the Management Board; this agreement is to be proposed by the Supervisory Board for the current financial year by the time the financial statements for the financial year ended are prepared and agreed between the Supervisory Board, represented by its Chairman, and the members of the Management Board.

The achievement rate for the short-term incentive must be at least 70% and is capped at 130%. The achievement rate increases on a straight-line basis between 70% and 130%. With a 100% achievement rate, the members of the Management Board each receive 100% of the bonus.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board.

The short-term incentive is payable in the salary statement issued for the month after the preparation of the financial statements.

[1] Essentially the non-cash benefit of private use of the company car as well as payments for a dual household that is necessary for business reasons

Long-term incentive
In addition to a short-term incentive, the members of the Management Board are entitled to a long-term incentive based on the long-term performance of the company. The achievement rate for the long-term incentive is based on the achievement of the agreed targets at the end of every four-year period and is determined by assessing the level of progress towards the targets.

The key parameters for the long-term incentive are the performance of the EPRA NAV (per share and in EUR) – as defined in the prospectus published for the IPO – of the company (NAV per share) from 1 January of the first of the four years to 31 December of the last of the four years (NAV development), as well as the performance of the company's shares in relation to the FTSE EPRA/NAREIT Europe Index (or a similar index) from 1 January of the first of the four years to 31 December of the last of the four years (relative strength index). The parameters are weighted against one another in a ratio of 50% (NAV development) and 50% (relative strength index).

The NAV development is defined in a corridor of between 100% (no increase in the NAV per share) and 250% (corresponds to a 150% increase in the NAV per share). With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the NAV development. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the NAV development will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The relative strength index is defined in a corridor of between 100% (i.e. the shares of the company performed the same as the index) and 250% (i.e. the shares of the company performed 1.5 times better than the index) relative to the index. With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the relative strength index. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the relative strength index will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The long-term incentive is paid to the member of the Management Board with the salary statement issued for the month after the preparation of the financial statements in the fourth financial year.

The Supervisory Board is entitled to award shares in the company in lieu of some or all of the cash payment. The company is entitled to introduce a share options programme – which has yet to be defined and which is of the same economic value to the member of the Management Board – to replace the long-term incentive.

Total remuneration of the Management Board in 2016 and 2015
For successfully disposing of all of the shares of the former shareholders LSREF II East AcquiCo S.à r.l. and Delpheast Beteiligungs GmbH & Co. KG in 2015, each member of the Management Board received shares worth EUR 1.16 m.

In the 2016 and 2015 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received	Peter Finkbeiner		Niclas Karoff	
in EUR k	2016	2015	2016	2015
Fixed remuneration	300	300	300	300
Fringe benefits	86	82	27	25
SUBTOTAL of fixed remuneration	**386**	**382**	**327**	**325**
Bonus[1]	0	1,163	0	1,163
Short-term variable remuneration (STI)	260	200	260	200
Subtotal of variable remuneration	**260**	**1,363**	**260**	**1,363**
Total remuneration	**646**	**1,745**	**587**	**1,688**

[1] The bonus for the full sale of the shares was paid by the shareholders of TLG IMMOBILIEN AG.

Bonuses paid	Peter Finkbeiner				Niclas Karoff			
in EUR k	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015
Fixed remuneration	300	300	300	300	300	300	300	300
Fringe benefits	86	86	86	82	27	27	27	25
Subtotal Fixed remuneration	**386**	**386**	**386**	**382**	**327**	**327**	**327**	**325**
Short-term variable remuneration (STI)	200	0	260	200	200	0	260	200
Long-term variable remuneration (LTI)	299	0	625	387	299	0	625	387
Subtotal of variable remuneration	**499**	**0**	**885**	**587**	**499**	**0**	**885**	**587**
Total remuneration	**885**	**386**	**1,271**	**969**	**826**	**327**	**1,212**	**912**

Total earnings from the company according to the German Commercial Code (HGB)	Peter Finkbeiner		Niclas Karoff	
in EUR k	2016	2015	2016	2015
Fixed remuneration	300	300	300	300
Fringe benefits	86	82	27	25
Subtotal of fixed remuneration	**386**	**382**	**327**	**325**
Short-term variable remuneration (STI)	260	200	260	200
Total remuneration	**646**	**582**	**587**	**525**

Current pensions were paid to two former managing directors in 2015 and 2016. The expenses totalled EUR 0.2 m in 2015 and EUR 0.2 m in 2016.

Payments in the event of premature termination of employment

Severance packages

If the contract of a member of the Management Board is terminated prematurely, payments to that member of the Management Board may not exceed the value of two years' worth of remuneration (the severance payment cap) or the value of the remuneration for the remaining term of the contract. The severance payment cap is calculated on the basis of the total remuneration for the past full financial year and if appropriate also the expected total remuneration for the current financial year (see recommendation 4.2.3 of the German Corporate Governance Code). If a change of control should result in the termination of a Management Board member's contract, that member shall receive a settlement equal to 150% of the severance payment cap.

Death benefits
If the member of the Management Board should die during the term of the contract, the remuneration – including STI and LTI – shall be determined up to the date of the termination of contract as a result of death and disbursed to the member's surviving dependants in line with the management contract. Furthermore, as joint creditors, the widow and children – up to the age of 25 – shall be entitled to the continued payment of all remuneration for the rest of the month in which the member died plus the three following months.

Supervisory Board remuneration system
The Supervisory Board was established on 5 September 2014. In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. Members of the Supervisory Board who have only been part of the Supervisory Board or one of its committees for part of the financial year will receive proportional remuneration for that financial year.

Mr Alexander Heße, Vice Chairman of the Supervisory Board, resigned from his position on the Supervisory Board on 31 May 2016 and did not claim any remuneration for 2016.

The members of the Supervisory Board receive fixed basic annual remuneration of EUR k 30. The Chairman of the Supervisory Board (Mr Michael Zahn) receives 200% of this amount (EUR k 60). Members of the presidential and nomination committee (Dr Michael Bütter) or the audit committee (Ms Elisabeth Stheeman, Dr Claus Nolting) receive fixed basic annual remuneration of EUR k 5. The Chairman of each committee (Mr Michael Zahn for the presidential and nomination committee and Mr Helmut Ullrich for the audit committee) receives 200% of this amount (EUR k 10).

Supervisory Board remuneration in detail
Remuneration paid or to be paid to the members of the Supervisory Board for the 2016 financial year:

in EUR k	Supervisory Board	Presidential and nomination committee	Audit committee	Capital measures committee	Attendance fees	VAT	Total
Michael Zahn	60,000.00	10,000.00	0.00	1,000.00	7,500.00	14,915.00	93,415.00
Alexander Heße	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Helmut Ullrich	30,000.00	0.00	10,000.00	500.00	7,500.00	9,120.00	57,120.00
Elisabeth Stheeman	30,000.00	0.00	5,000.00	0.00	7,500.00	0.00	42,500.00
Dr Michael Bütter	30,000.00	5,000.00	0.00	500.00	9,000.00	8,455.00	52,955.00
Dr Claus Nolting	30,000.00	0.00	5,000.00	0.00	6,000.00	7,790.00	48,790.00

In the 2016 financial year, Mr Heße waived his claim to remuneration for work on the Supervisory Board.

A D&O group insurance policy was also taken out for the members of the Management and Supervisory Boards; this policy contains a deductible that meets the requirements of § 93 (2) line 3 AktG and recommendation 3.8 (3) in connection with 3.8 (2) of the German Corporate Governance Code.

5. DISCLOSURES RELEVANT TO ACQUISITIONS

5.1 COMPOSITION OF SUBSCRIBED CAPITAL

As at 31 December 2016, the share capital was EUR 67,432,326.00, comprised of 67,432,326 no-par bearer shares with a value of EUR 1.00 per share The share capital is fully paid in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the annual general meeting. This does not include any treasury shares held by the company; these do not grant the company any rights.

5.2 MAJOR SHAREHOLDINGS

As reported in writing on 24 July 2015, the Government of Singapore Investment Corporation, Singapore, holds 13.33% of the voting rights in the company in total. The total number of voting rights on this date was 61,302,326. The number of voting rights reported to the company by the Government of Singapore Investment Corporation for 24 July 2015 would be equivalent to 12.12% of the total number of voting rights as at 31 December 2016. Please note that the last disclosed number of voting rights might since have changed within the thresholds without the shareholders being obliged to inform the company.

5.3 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 § 84 AktG. There are no significant supplementary or deviating provisions in the Articles of Association or rules of procedure. Amendments are made to the Articles of Association in accordance with the Stock Corporation Act (AktG). There are no significant supplementary or deviating provisions in the Articles of Association or rules of procedure.

5.4 AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE NEW SHARES

By resolution of the general assembly on 31 May 2016 and with the consent of the Supervisory Board, the Management Board was authorised to increase the share capital of the company by up to EUR 9,195,000.00 in exchange for cash contributions (authorised capital 2016) by issuing up to 9,195,000 new shares by 30 May 2021.

Furthermore, with the consent of the Supervisory Board the Management Board is authorised to increase the share capital of the company by up to EUR 24,521,163.00 in exchange for cash contributions and/or contributions in kind (remaining authorised capital 2014/II pursuant to the resolution of the general meeting of 22 October 2014) by issuing up to 24,521,163 new shares by 21 October 2019. The shareholders must always be granted subscription rights, although the subscription rights of the shareholders can be excluded under the conditions of the approved capital 2016 and the remaining authorised capital 2014/II.

Furthermore, the share capital has been conditionally increased by up to EUR 33,716,163.00 by the issuance of up to 33,716,163 new shares (contingent capital 2016). The contingent capital increase will enable the company to issue shares to the creditors of any convertible bonds or similar instruments that might be issued by 30 May 2021.

More details on the authorised and contingent capital can be found in the Articles of Association of the company.

5.5 AUTHORITY OF THE MANAGEMENT BOARD TO ACQUIRE AND UTILISE TREASURY SHARES

On 25 September 2014, the annual general meeting of TLG IMMOBILIEN AG authorised the Management Board to acquire treasury shares up to the value of 10% of the share capital as at the date of the resolution. This authorisation is effective until 24 September 2019. In the interests of equality, at the discretion of the Management Board the shares can be acquired on the stock exchange or by means of either a public purchase offer or a public invitation to tender sent to all shareholders.

Furthermore, the Management Board was authorised to utilise the shares acquired in this manner – subject to other conditions – as follows: (i) to withdraw shares, (ii) to resell the shares on the stock exchange, (iii) as a subscription offer to the shareholders, (iv) to sell the shares in a way other than via the stock exchange or in the form of an offer to all shareholders if the acquired shares are sold for cash at a price that is not significantly lower than the quoted price in the sense of § 186 (3) line 4 AktG.

5.6 CHANGE-OF-CONTROL CLAUSES AND COMPENSATION AGREEMENTS IN THE EVENT OF A TENDER OFFER

The main agreements of TLG IMMOBILIEN AG which are contingent on a change of control concern financing agreements. The main financing agreements of TLG IMMOBILIEN contain standard provisions in the event of a change of control. In particular, these agreements contain the obligation of TLG IMMOBILIEN AG to report the change of control to the bank and the right of the creditor to terminate the loan with immediate effect and render it payable in the event of a change of control.

The contracts of the members of the Management Board also contain provisions in the event of a change of control. If a member's contract is terminated prematurely following a change of control, that member is entitled to receive payments which meet the requirements of recommendation 4.2.3 of the German Corporate Governance Code by adhering to the settlement cap provided for by the Code.

6. RESPONSIBILITY STATEMENT REQUIRED BY § 264 (2) LINE 3 HGB, § 289 (1) LINE 5 HGB AND § 315 (1) LINE 6 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the annual and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the company and of the Group, and the report on the position of the company and the Group includes a fair review of the development and performance of the business and the position of the company and of the Group, together with a description of the principal opportunities and risks associated with the expected development of the company and of the Group.

Berlin, 10 February 2017

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

7. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

In addition to the report on the TLG IMMOBILIEN Group, you can find information on the development of TLG IMMOBILIEN AG below. TLG IMMOBILIEN AG is the parent company of the TLG IMMOBILIEN Group and is based in Berlin.

The business model and the corporate strategy of TLG IMMOBILIEN AG are based on the following pillars:

- Strategic portfolio management
- Asset and property management
- Acquisitions and disposals

The objective of the business activities is – in addition to the efficient management and development of the high-quality property portfolio – the continued expansion of the portfolio through profitable acquisitions of office, retail and hotel properties in the core regions. Targeted acquisition of properties with potential for increased rents or moderate vacancy rates and the subsequent active asset management results in the potential to increase profitability via optimised letting and management. In addition to growth through acquisitions, the company is increasingly focused on the disposal of non-strategic properties (from the "other" asset class) as well as office and retail properties that no longer fit in with the portfolio.

The annual financial statements of TLG IMMOBILIEN AG are prepared in accordance with GAAP in Germany. The consolidated financial statements meet the International Financial Reporting Standards (IFRS). As a result, the accounting and measurement methods differ. These differences primarily concern properties, reserves, financial instruments, revenue and deferred taxes.

The key group figures according to IFRS – FFO, net LTV and EPRA NAV – are the key performance indicators of TLG IMMOBILIEN AG.

7.1 SEPARATE FINANCIAL STATEMENTS – RESULTS OF OPERATIONS

The results of the GAAP financial statements of TLG IMMOBILIEN AG are as follows:

	01/2016 – 12/2016		01/2015 – 12/2015		Change	
in TEUR	EUR m	%	EUR m	%	EUR m	%
Revenue	186.2	99	180.0	99	6.2	3
Change in portfolio	2.3	1	1.0	1	1.3	134
Total	**188.5**	**100**	**181.0**	**100**	**7.5**	**4**
Operating expenses	136.1	72	109.2	60	26.9	25
Operating profit	**52.4**	**28**	**71.8**	**40**	**−19.4**	**−27**
Income from investments	3.3		4.7		−1.4	−30
Financial result	-26.8		−23.7		−3.1	13
Other operative effects	2.0		2.7		−0.7	−24
Operative result	**30.9**		**55.5**		**−24.6**	**−44**
Non-operative result	4.0		22.9		−18.9	−83
Earnings before taxes	**34.9**		**78.4**		**−43.5**	**−55**
Income taxes	4.9		10.1		−5.2	−51
Annual profit	**30.0**		**68.3**		**−38.3**	**−56**

In the 2016 financial year, the company generated an annual profit of EUR 30.0 m, which is in line with the forecast in the Annual Report 2015. Despite increased revenue, the change in net income compared to the previous year was mainly the result of significantly higher operating expenses and lower non-operative result.

The increase in revenue was due primarily to higher revenue from operational management (increase of EUR 16.8 m). The change was brought about by the acquisitions made in late 2015 and early 2016 in particular. The decrease in net income from disposals (EUR −10.9 m) was therefore balanced out.

Operating expenses increased by EUR 26.9 m compared to the previous year, due primarily to higher depreciation and amortisation, significantly higher write-downs and higher maintenance measures. The expenses related to letting activities are consistent with the change in revenue from operational management.

Operating profits decreased by EUR 19.4 m compared to the previous year due to the lower proceeds of EUR 10.3 m (previous year EUR 29.0 m) from disposals of properties.

Financing costs increased by EUR 3.1 m in the 2016 financial year and are attributable to the significantly larger property portfolio and the financing it requires.

Interest rate derivatives safeguard the interest rate of loans that have been taken out. They were measured using the mark-to-market method and are recognised as a hedge. As at the reporting date, the current cash flows from the underlying and hedge transactions almost completely balanced each other out. As at the reporting date, the reserve for impending losses due to ineffectiveness totalled EUR 2.0 m. The dollar offset method is used to measure the effectiveness of the hedge.

Due to the significantly lower margin produced by offsetting appreciation against write-downs of property, the non-operative result decreased to EUR 4.0 m (previous year EUR 22.9 m).

The income taxes (EUR 4.9 m) comprise ongoing income taxes (EUR 5.4 m), tax revenue from previous periods (EUR 1.5 m) and deferred tax liabilities in 2016 (EUR 1.0 m).

7.2 SEPARATE FINANCIAL STATEMENTS – FINANCIAL POSITION

The following condensed cash flow statement from the GAAP financial statements of TLG IMMOBILIEN AG shows the changes in cash and cash equivalents (cash in hand and bank balances) and the underlying movements of cash:

	01/2016 – 12/2016 EUR m	01/2015 – 12/2015 EUR m	Change EUR m
Cash flow from operating activities	72.2	84.0	−11.8
Cash flow from investing activities	−399.6	−152.5	−247.1
Cash flow from financing activities	210.8	97.5	113.3
Change in cash funds	−116.6	29.0	−145.6
Cash and cash equivalents at beginning of period	180.4	151.4	29.0
Cash and cash equivalents at end of period	**63.8**	**180.4**	**−116.6**

The cash flow from operating activities was EUR 72.2 m in 2016, and therefore EUR 11.8 m lower than in the previous year. This was due primarily to significantly higher interest and tax payments in 2016. The higher revenue was offset by higher disbursements for maintenance measures.

The increase in the negative cash flow from investing activities of EUR 247.1 m to EUR 399.6 m essentially reflects investments in new and existing properties totalling EUR 246.2 m and in shareholdings totalling EUR 191.4 m. The investments in properties and shareholdings were therefore EUR 229.4 m higher than in the previous year.

The proceeds from the disposal of properties decreased by EUR 11.6 m due to a lower volume of disposals.

The significantly higher cash flow from financing activities is due primarily to the new loan of EUR 292.5 m taken out in 2016 as well as the payment of a larger dividend of EUR 48.6 m in the 2016 financial year (previous year EUR 15.3 m).

Overall, due to the aforementioned items the cash and cash equivalents decreased by EUR 116.6 m. The cash and cash equivalents consist entirely of liquid funds.

7.3 SEPARATE FINANCIAL STATEMENTS – NET ASSETS

The net assets of the GAAP financial statements of TLG IMMOBILIEN AG are as follows (receivables and liabilities due in more than one year are treated as non-current):

	31/12/2016		31/12/2015		Change	
	EUR m	%	EUR m	%	EUR m	%
Assets	1,721.6	94.6	1,356.6	85.9	365.0	26.9
Non-current receivables	0.2	0.0	0.2	0.0	0.0	0.0
Inventories	20.4	1.1	18.7	1.2	1.7	9.1
Current receivables	6.6	0.4	15.6	1.0	−9.0	−57.7
Cash and cash equivalents	63.8	3.5	180.4	11.4	−116.6	−64.6
Other assets	6.5	0.4	7.1	0.4	−0.6	−8.5
Total assets	**1,819.1**	**100.0**	**1,578.5**	**100.0**	**240.6**	**15.2**
Equity*	650.6	35.8	670.2	42.5	−19.6	−2.9
Non-current liabilities	1,039.8	57.2	810.8	51.4	229.0	28.2
Current liabilities	128.7	7.1	97.4	6.2	31.3	32.1
Total equity and liabilities	**1,819.1**	**100.0**	**1,578.5**	**100.0**	**240.6**	**15.2**

* Including the special item for investment subsidies and grants in the amount of EUR 11.6 m (previous year EUR 12.7 m)

The asset side is dominated by fixed assets. The carrying amount of the fixed assets increased by EUR 365.0 m to EUR 1,721.6 m.

In the 2016 financial year, EUR 437.6 m was spent on investments in properties and additions to the fixed assets through the acquisition of properties, which stood in contrast to write-downs of EUR 21.4 m due to the disposal of properties. Depreciation and amortisation (EUR 46.0 m) also took place. In the reporting year, appreciation due to reversals of write-downs totalled EUR 2.1 m, offset against unscheduled depreciation, and were based on the current value of the real estate market.

The current receivables had decreased by EUR 9.0 m as at the reporting date, due primarily to receivables from the disposal of properties.

Compared to the previous year, cash and cash equivalents decreased by EUR 116.6 m. The change is the result of the disclosures on financial position according to GAAP.

Including the special item for investment subsidies and grants, the finance of TLG IMMOBILIEN AG consists of 35.8% equity (previous year 42.5%) and 57.2% long-term debt (previous year 51.4%), with the remainder consisting of short-term debt.

Non-current liabilities increased by EUR 229.0 m compared to 2015 due primarily to the increase in liabilities to financial institutions.

The liabilities to financial institutions have a medium to long-term maturity structure. Therefore, of the non-current liabilities to financial institutions, EUR 527.4 m is due within one to five years, whereas EUR 451.6 m is due from 2022. The other non-current liabilities concern the pension provisions of EUR 5.7 m and non-current other liabilities of EUR 1.0 m.

Furthermore, the non-current liabilities contain deferred tax liabilities of EUR 54.2 m.

7.4 SEPARATE FINANCIAL STATEMENTS – RISKS AND OPPORTUNITIES

TLG IMMOBILIEN AG has a dominant weight within the Group. It therefore faces the same risks and opportunities as the Group. The risks faced by the subsidiaries affect TLG IMMOBILIEN AG in line with each shareholding. The individual risks of the Group are disclosed in the risk report (see section 3.1.2).

7.5 SEPARATE FINANCIAL STATEMENTS – FORECAST REPORT

Assuming that the German economy and property markets on which TLG IMMOBILIEN AG is active remain stable or experience positive growth, the company expects its performance to remain positive.

Due to the completed acquisitions and planned disposals, the company expects net income in 2017 to be slightly higher than in 2016.

Berlin, 10 February 2017

Peter Finkbeiner	Niclas Karoff
Member of the Management Board	Member of the Management Board

AUDIT OPINION

We have audited the annual financial statements comprising the balance sheet, the income statement and the notes to the annual financial statements, together with the bookkeeping system, and the combined management report of the company and the group of TLG IMMOBILIEN AG, Berlin, for the fiscal year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report of the company and the group in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report of the company and the group based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch": German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report of the company and the group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report of the company and the group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and combined management report of the company and the group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with (German) principles of proper accounting. The combined management report of the company and the group is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Berlin, 10 February 2017

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